PROSPECTUS DATED 11 NOVEMBER 2015

RL Finance Bonds No. 3 plc

(incorporated with limited liability in England and Wales with registered number 9664420)

£350,000,000 6.125 per cent. Guaranteed Subordinated Notes due 2028

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: 100.00 per cent.

The £350,000,000 6.125 per cent. Guaranteed Subordinated Notes due 2028 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. 3 plc (the "**Issuer**") on or about 13 November 2015 (the "**Issue Date**"). The Notes will bear interest from (and including) the Issue Date to (but excluding) 13 November 2028 (the "**Maturity Date**") at a rate of 6.125 per cent. per annum. Interest will be payable on the Notes annually in arrear on 13 November in each year (each, an "**Interest Payment Date**"), commencing on 13 November 2016, provided that 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 the Maturity Date and may also be redeemed at any time (i) following the occurrence of a Capital Disqualification Event (as defined in the Conditions) 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 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 required by the Prudential Regulation Authority (or any successor authority, the "**PRA**") pursuant to the Relevant Rules, all as more particularly described in Condition 8(*g*).

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

Potential investors should read the whole of this Prospectus, in particular the "Risk Factors" set out on pages 9 to 52.

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 S.A. ("**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 are expected to be 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 2013 and 2014 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS**"), together with the audit reports thereon, each of which have been previously published and which have been filed with the FCA, (ii) the unaudited interim results of the Guarantor for the six months ended 30 June 2015 published by the Regulatory News Service operated by the London Stock Exchange ("**RNS**") on 18 August 2015 and (iii) the unaudited interim management statement and third quarter results of the Guarantor published by RNS on 2 November 2015.

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 RNS at *http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html*.

In accordance with IFRS, 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.

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. 3 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	£350,000,000 6.125 per cent. Guaranteed Subordinated Notes due 2028.
Issue Date	13 November 2015.
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 Maturity Date at a rate of 6.125 per cent. per annum payable (subject as provided under "*Deferral of interest*" below) annually in arrear on 13 November in each year.

Deferral of interest

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 required to be 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(*d*).

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 13 November 2028.

Redemption, substitution or variation upon a

If:

(a) as a result of certain changes in (or proposed changes in), or

relevant tax law change

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(*d*), 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(*d*).

Redemption, Substitution or Variation upon a Capital

If a Capital Disqualification Event has occurred and is continuing the Issuer may upon notice to Noteholders either:

Disqualification Event	(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*).
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*) or 8(*e*) and no Guaranteed Amounts in respect of principal shall 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 required by the PRA pursuant to the Relevant Rules. Any redemption or purchase of the Notes by the Issuer or the Guarantor prior to the fifth anniversary of the Issue Date may only be made on condition that such redemption or purchase is funded (to the extent then required by the PRA or the Relevant Rules) out of the proceeds of a new issuance of capital of at least the same quality as the Notes and being otherwise permitted under the Relevant Rules.
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	During any period beginning on the date on which the Issuer or Guarantor becomes obliged to give notice of the deferral of any

Principal

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 Profit Share 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)

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 S.A. and Euroclear Bank SA/NV on or about the Issue Date. 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 are expected to be 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 on a subordinated basis by the Issuer to the Guarantor and used by the Guarantor for general corporate purposes.
Clearing Systems	Clearstream Banking S.A. and Euroclear Bank SA/NV.
ISIN	XS1319738537
Common Code	131973853

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 Ongoing difficulties in the global financial markets and in UK and global economic and market conditions may adversely affect the Group's business, operations and financial position.

The Group's results of operations are materially affected by uncertainty in the worldwide financial markets and macro-economic conditions generally. A wide variety of factors, including concerns over slowing growth, high sovereign debt within, and to a lesser degree outside, the Eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats as well as geopolitical issues have contributed to increased volatility in the financial markets in recent years and have diminished growth expectations for the global economy going forward. Global fixed income markets continue to experience periods of both volatility and limited market liquidity, which have affected a broad range of asset classes and sectors. 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. Ongoing difficult conditions in the global capital markets, the UK and the global economy generally may adversely affect the Group's business, operations and financial position due to its exposure to asset prices and the markets in which the Group operates.

The economic climate in Western economies following the global financial crisis and

subsequent sovereign debt crisis has been 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 have been, and continue to, work to engineer a recovery through their policy actions. Both investment and economic risks continue to 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, at times, created inflationary impulses and excess liquidity that have led to inflated asset prices in a number of markets, whereas in some markets there is the prospect of deflation. For example, current deflationary pressures on the UK economy could have a detrimental impact if sustained in the long-term, such as increasing the cost of paying off debt. 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.

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. In a sustained economic phase of low growth and high public debt characterised by decreasing consumer confidence, high levels of unemployment, volatile equity markets, inflation rising in excess of earnings (whilst in some countries, there are deflationary pressures) 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. Additionally, the Group may experience an increased incidence of claims or surrenders of policies that could affect the current and future profitability of the business. Any potential adverse effect will also be dependent upon customer behaviour and confidence. The Group's policyholders may choose to defer paying premiums or stop paying premiums altogether. In addition, in the event of extreme prolonged adverse market conditions, the Group could incur significant losses in its 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 and UK 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.

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 at times caused concerns that one or more Eurozone member states may depart from European Monetary Union and/or that there may be an imposition of capital and exchange controls impacting one or more affected countries or possibly more widely.

The Group provides protection products through intermediaries in the Republic of Ireland via its Royal London Ireland business. The Group's investment portfolio therefore has some exposure to the Eurozone and 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. 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.

The issues arising out of the current sovereign debt crisis may transcend Europe, cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies, and likewise affect UK and United States ("**U.S.**") based financial institutions, the stability of the global financial markets and any economic recovery. The Group holds investments in both UK and non-UK securities.

If a Eurozone member state were to default on its obligations or to seek to leave the Eurozone, or if the Eurozone were broken up entirely, the impact on the financial and currency markets would be significant and could impact materially all financial institutions, including the Group. Past political negotiations in the U.S. over raising the U.S. debt ceiling indicate that a risk of sovereign debt default and the potential adverse impact on global markets which could result from this is not limited to the Eurozone. Such events could adversely affect the Group's business and results of operations, financial condition and liquidity.

1.3 The Group has substantial exposure to fixed income securities, equity securities and property and a fall in the prices of such assets could have an adverse impact on the Group's investments and its results of operations.

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 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 position of the Group.

Downturns and volatility in the equity markets can have a material adverse effect on the revenues and returns from the Group's unit-linked and asset management businesses. The unit-

linked and asset management businesses depend on fees related primarily to the value of assets under management and would therefore be reduced by declines in equity and property markets. Profit could also be reduced as a result of current investors withdrawing funds or reducing their rates of ongoing investment with the Group's asset management businesses, switching to lower risk funds which generate lower income, or as a result of the Group's asset management businesses failing to attract funds from new investors.

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 at 31 December 2014 investment holdings in property assets amounted to £5.1 billion, which accounts for 6.2 per cent. of the assets of Royal London Asset Management Limited ("**RLAM**").

Downturns in equity markets may also have a material adverse effect on the Group's regulatory capital surplus as currently measured under the EU Insurance Groups Directive and under the Individual Capital Assessment required by the PRA in the UK (and which will be measured under Solvency II when the new regime becomes effective). The Group offers certain long-term insurance products with guarantees. As described in section 2.10, 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 seeks to mitigate this risk through investment diversification and other risk management techniques such as the use of 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 or property prices 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 regulatory capital 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. Currently, 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 £2.7 billion as at 31 December 2013 and £3.4 billion as at 31 December 2014. The Group's current 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, including the PRA and the FCA in the UK, as well as the Central Bank of Ireland. 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. If such intervention were to occur, this could have a material adverse impact on the Group's business, financial condition and prospects.

In light of the financial crisis, some of these authorities have been, and continue to consider, and may in the future further 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 powers and duties 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, or a combination, of such factors could materially affect the Group's results of operations, financial condition and liquidity.

1.5 Market developments and governmental actions regarding the sovereign debt 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.

The global economy and financial system have suffered considerable turbulence and uncertainty since 2007. 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.

1.6 The Group is exposed to changes to financial markets due to uncertainties arising from the political environment.

The political environment in the jurisdictions in which the Group operates may give rise to change in law and regulation which impacts the viability of the Group's propositions in those markets. For example, in the UK, on 19 March 2014, the Chancellor of the Exchequer announced plans for wide-ranging reforms of UK pensions legislation, including an intention to cease the requirement for pension benefits to be taken in the form of an annuity and for customers to receive guidance on their options at the time of retirement. This may lead to a reduction in the amount of vesting annuity business retained by the Group. In addition, on 27 March 2014, the Government announced a fee cap for all workplace pension schemes for auto-enrolment. It will also take time for the implications for the pensions market of governmental decisions on pension charge cap levels, the introduction of independent governance committees for workplace pensions and the new pension freedom measures to embed and to be fully understood. However such changes could result in an adverse effect on the Group's business and results of operations.

Further changes in the UK political environment that may occur as a result of the 2015 general election or adjustments to the political landscape of the EU (including the UK's continued membership of and influence in the EU) could also lead to further government decisions that could affect the Group's business. The recent general election result in the UK has resulted in ongoing uncertainty over the UK's continued membership of and influence in the EU which may adversely affect the UK economy and the Group's business. In the event that a referendum in the UK resulted in an exit from the EU, there could be material disruption to the Group's operations and other challenges to the business and operations of the Group as a whole which

are difficult to predict and protect against in light of the uncertain legal position and uncertain economic impact of such a result.

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 Changes in interest rate and credit spread volatility could adversely affect the Group by reducing the returns on fixed interest investments, reducing the market values of fixed interest securities in the Group's investment portfolio and may cause policyholders to surrender their contracts.

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.

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. The Group's mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration approximately equal to the duration of the Group's estimated liability cash flow profile. However, 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 Group's estimate of the liability cash flow profile is subject to uncertainty and may be inaccurate for reasons such as varying mortality, morbidity or other insurance claims, and the Group may be forced to liquidate investments prior to maturity at a loss in order to cover the liability. Such a loss 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.

Increases in market interest rates could also negatively affect the Group's profitability. This could arise as the accommodative monetary policies of central banks, in particular the U.S. Federal Reserve and the Bank of England, are wound down or stopped. Surrenders of life insurance policies and fixed annuity contracts may increase as policyholders seek higher returns and higher guaranteed minimum returns. Obtaining cash to satisfy these surrenders may require the Group to liquidate fixed maturity investments at a time when market prices for those assets are depressed which may result in realised investment losses. Regardless of whether the Group realises an investment loss, these cash payments would result in a decrease in total invested assets, which may decrease the Group's net income. Premature withdrawals may also cause the Group to accelerate amortisation of policy acquisition costs, which would also reduce the Group's net income.

2.2 The inability or failure of reinsurers or other third party counterparties 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 under such reinsurance arrangements. As a result of

challenging financial market conditions and other macro-economic challenges 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. The Group operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall counterparty risk is within the Group's risk appetite. However, 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.

Reductions in risk appetite among reinsurers may result in changes in price or willingness to reinsure certain risks, which could have a material adverse effect on the Group's results of operations or financial condition. If reinsurers do not offer their products and services, in whole or in part, for any reason, there is a risk that the Group may be unable to procure appropriate reinsurance cover for the risks which it would otherwise wish to reinsure.

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 Group is subject to credit risk with respect to its current and future reinsurers. The insolvency of any reinsurers or their inability or unwillingness to meet their financial obligations or disputes on, and defects in, reinsurance contract wording or processes could materially and adversely 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. 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 and adversely 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.

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 and 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. 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 or liabilities 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.

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 enters into hedging transactions and uses derivative instruments to hedge various risks and through this is exposed to counterparty default risk.

In addition to reinsurance, the Group enters into various hedging transactions to hedge various risks, including certain guarantees contained in some of its products. These hedging transactions cannot eliminate all the risks and no assurance can be given as to the extent to which such measures will be effective in reducing such risks. The Group enters into a significant number of derivative instruments, including options, forwards, credit default, interest rate, inflation and currency swaps with a number of counterparties. The Group's obligations to policyholders are not changed by hedging activities and the Group remains liable for obligations if derivative counterparties do not pay. Defaults by such counterparties could have a material adverse effect on the Group's financial condition and results of operation.

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. Although the Group seeks to limit and manage direct exposure to market counterparties by, for example, seeking to ensure that derivatives are fully collateralised with liquid assets on a daily basis, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness does deteriorate, the Group may record 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.

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

The Group is exposed to the risk of failure or default of one or more of its counterparties who may not perform under their payment or other obligations. These parties include private sector and government (or government-backed) issuers whose debt securities the Group holds in its investment portfolios and other loans, reinsurers to which the Group has ceded insurance risks (as described in section 2.2 above), customers, trading counterparties, and counterparties under swap and other derivative contracts. The Group also executes transactions with other counterparties in the financial services industry, including brokers and dealers, commercial and investment banks, hedge funds and other investment funds, insurance groups and institutions.

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.

The Group is also susceptible to an adverse financial outcome from a change in third-party credit standing. As well as having a potential impact on asset values and, as a result, the Group's financial condition and results of operations, credit rating movements can also impact its solvency position where regulatory capital requirements are linked to the credit rating of the investments held.

Even where security is taken with respect to such transactions, the Group's credit risk may not be mitigated if the collateral held by it cannot be realised or is liquidated at prices insufficient to recover the full amount of the loan or other value due. The Group also has an exposure to financial institutions in the form of unsecured debt instruments and derivative transactions. Such losses or impairments to the carrying value of these assets could materially and adversely affect the Group's financial condition and results of operations.

In common with many insurance companies and other institutional investors, the Group engages in securities lending, or stock-lending, activities, whereby the Group loans equity and debt securities from its portfolios to counterparties that use the loaned securities in their securities trading activities. Whilst the Group seeks to lend securities only to high-quality borrowers to minimise the possibility of default, and then only within pre-set credit limits for

each borrower, borrowers may default on their securities-redelivery obligations to the Group due to bankruptcy, insolvency, lack of liquidity, operational failure, fraud, government intervention and other reasons. Whilst the Group seeks to mitigate counterparty risk by requiring collateral to support the obligations of counterparties, there is a risk that the collateral obtained will not be sufficient or effective in all circumstances in order to protect against those risks.

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, taxes, interest on debt and to meet liabilities (such as insurance claims). 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. 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 at all).

Disruptions, uncertainty or volatility in the debt capital markets, as has been experienced in the last few years, in particular throughout the Eurozone, may also limit the availability of liquidity and the Group's access to capital required to operate its business. Such market conditions may limit the Group's ability to replace maturing debt in a timely manner, 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. Although the Group does not currently anticipate any severe disruptions to the capital and credit

markets, there can be no assurance that such disruption will not arise.

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.

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

The Group holds 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. There can be no certainty that the Group would be able to sell them for the prices at which it has recorded them. 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 condition.

The Group provides certain products in the Republic of Ireland through its Royal London Ireland business, and is therefore exposed to foreign currency exchange risk arising from fluctuations in the sterling: euro exchange rate. The Group's premium income from continuing operations and its assets are denominated in a variety of currencies, of which the largest are sterling and the euro. Although the Group takes certain actions to address this risk, foreign currency exchange rate fluctuation could have an adverse effect on the Group's reported results due to unhedged positions or the failure of hedges to effectively offset the impact of the foreign currency exchange rate fluctuation. Any adverse foreign currency exchange fluctuation may also have an adverse effect on the Group's regulatory capital surplus based on the EU Insurance Groups Directive and under the Individual Capital Assessment required by the PRA in the UK.

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. The Group is also subject to inflation risk through its holdings of fixed interest and other investments. 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.

2.10 Market fluctuations may cause the value of options and guarantees embedded in some of the Group's life insurance products to exceed the value of the assets backing their reserves, which could adversely affect the Group's results of operations or financial condition.

Certain of the Group's products offer guarantees and options, including interest rate and investment return guarantees, in respect of certain long-term insurance and fund management products. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables, including foreign currency exchange rates, interest rates,

property values and equity prices. The majority of such guarantees are within the closed sub-funds of the Group rather than in the Royal London Open Fund. The closed sub-funds of the Guarantor are comprised of the SL Closed Fund, the PLAL With-Profits Sub-Fund, the Royal Liver Sub-Fund and the Royal London (CIS) Sub-Fund (together the "**Closed Sub-Funds**").

Interest rate guaranteed returns, such as those available on guaranteed annuity options, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income.

There has been significant market concern as to the implications of guaranteed annuity options on reserving and bonus declarations for insurers providing such products. 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.

The Group is also subject to the risk that the cost of hedging these guaranteed minimum benefits increases, resulting in a reduction to net income. In addition, the Group is subject to the risk that unanticipated policyholder behaviour, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on the Group's results of operations, financial condition or liquidity.

2.11 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 changes in the 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.

LEGAL AND REGULATORY RISKS

3 The Group's businesses are subject to extensive regulatory supervision and therefore 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, the terms and conditions applicable to these products (including retrospectively), 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 those described in this section 3.

3.1 The Group's business is subject to extensive and ongoing regulatory supervision and to potential FCA and PRA intervention on industry-wide and to other specific investigations, reports and reviews.

The Group is subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental agencies, including the PRA and the FCA. In light of wider financial and economic conditions, some of these authorities are considering, or may in the future consider, enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way the Group conducts its business and manages its capital, and may require the Group to satisfy increased capital requirements.

In the UK, the PRA and the FCA have broad powers, including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices, to make product intervention rules and to require the maintenance of adequate financial resources. The PRA and the FCA have the power to undertake a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to require firms to pay compensation.

The PRA and the FCA may make enquiries of the companies which they regulate regarding compliance with regulations governing the operation of business and, similar to the other UK regulated financial services companies, the Group faces the risk that the PRA or the FCA could find that it has failed to comply with applicable regulations or has not undertaken corrective action as required.

Following the onset of the 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.

Following the publication of articles in the UK press on 28 March 2014, the FCA confirmed its intention to perform a review of the fair treatment of long-standing or legacy customers in the life assurance industry. The FCA has made it clear that this review will not consider the suitability of historic advice nor will it require a review of individual policies. The Group continues to co-operate with the FCA concerning their thematic review into the 'Fair Treatment of Long-Standing Customers of Life Insurers' and the Group currently expects this thematic review to be concluded during the course of 2015. The Group believes that any changes which result from this thematic review would be applied industry-wide. Any requirement to reduce policy charges could have an adverse impact on the profitability of the affected products. It is also possible that future regulatory thematic industry-wide reviews carried out by the FCA or PRA may have a significant impact on the Group.

The FCA has conducted a number of Thematic Reviews of the Annuity Market. Initially, a review was conducted by the FCA of annuity pricing data, which concluded in February 2014 that the market was not working well for most consumers. This pricing review looked at whether and to what extent prospective customers are not purchasing the best value annuities, or exercising the open market option ("**OMO**") to buy their annuity from a firm other than the one providing the pension policy. The FCA conducted its own pricing research to determine which groups of consumers are most likely to be affected. This involved a pricing survey of major annuity providers, and compared the rates available through a range of distribution channels, including rates available through the OMO and those only available to existing pension policyholders.

This pricing review was followed up by the related Thematic Review of Annuity Sales Practices, which was published by the FCA on 11 December 2014. The Thematic Review of Annuity Sales Practices looked at four desired outcomes: (i) customers are actively encouraged to shop around; (ii) consumers are provided with relevant and timely information about the potential benefits of any guaranteed annuity rate or risks of a market value reduction that exists in their existing pension contract; (iii) consumers are provided with appropriate and timely information about (a) the benefits of enhanced annuities and their potential eligibility, (b) an enhanced annuity being available on the open market and (c) the potential for variation between

different providers' underwriting and its impact on the income offered; and (iv) consumers are provided with appropriate information about the different annuity options available to them (for example, joint as opposed to single life, level as opposed to escalating, guaranteed periods etc.) and the implications of selecting different annuity types. The FCA has highlighted that its work on this review has revealed that firms need to make improvements in relation to the way consumers are informed about shopping around for enhanced annuities. The FCA has asked the majority of firms in the review, to do further work to determine if its findings in relation to enhanced annuities are indicative of a more widespread problem and/or have led to poor consumer outcomes. The consequences of the review are uncertain but could include requirements to pay redress to customers who could have obtained a more favourable annuity rate by exercising their OMO or purchasing an enhanced annuity and/or the imposition of greater obligations on annuity providers to treat customers fairly and provide increased levels of information on alternative options available to customers at retirement. Regulatory action of this type could have consequences for the Group and have an adverse effect on its business, results of operations and/or financial condition.

The Group (like all other groups in which an entity is PRA and/or FCA regulated) contributes to the Financial Services Compensation Scheme and the levels of contribution to the Financial Services Compensation Scheme may change over time.

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

The Financial Ombudsman Service ("**FOS**") exists to resolve individual or small business policyholder disputes. Where larger groups or matters of public policy are concerned, the FCA and PRA may intervene directly. For example, prior to April 2013, the FSA (predecessor to the FCA and PRA) intervened directly in industry-wide issues, such as the sale of personal pensions, the sale of mortgage-related endowments, the Treating Customers Fairly ("**TCF**") initiative and investments in split capital investment trusts. Since then, the TCF initiative has been an increasing focus of the FCA's activities in recent years. In response to high-profile regulatory failures and a perceived divergence between the sophistication of financial products and financial literacy of consumers, the FCA has increased its emphasis on the need for consumer protection. In particular, the FCA has stated that its approach to TCF will be governed by high-level principles rather than a strict interpretation of the FCA rules. Consequently, the failure by a financial services firm to implement a TCF policy aligned with the FCA's approach and to develop its TCF policy in response to changes in the FCA's approach, may lead to enforcement action by the regulator. Assertions by policyholders that their interests have been adversely affected by actions taken by the Group, or that they have otherwise been treated unfairly, may also lead to enforcement actions by the FCA.

3.2 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.

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 the relevant rules for With-Profits Business within mutual insurers such as the Guarantor. These 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 continues to assess the possible impact to its strategy and operations in light of previous changes to COBS 20 (see the section entitled "*Regulation Overview*" below), including the policy statement issued by the FCA in March 2014 "*Response to CP12/38 – Mutuality and with-profits funds: a way forward*" (PS 14/5) which has taken account of matters arising through the consultation process carried out by the FSA (now the FCA) on the matter. This gave rise to the possibility that mutual insurers could, in the future, be constrained in their use of surplus assets from with-profits business to fund strategic initiatives such as acquisitions or supporting the writing of new business. 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.

3.3 The Group may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to financial services legislation or regulation such as the Solvency II Directive ("Solvency II").

Solvency II, an insurance industry regulatory regime agreed by the European Parliament in 2009, will require European-domiciled insurers to move to more risk-based capital requirements. The implementation date for Solvency II is 1 January 2016. 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 also has the ability to require companies to hold additional capital above its own assessment both ahead of, and following, implementation of Solvency II. In line with PRA recommendations to internal model firms, the Group has been re-planning its work on the internal model over a longer timeframe whilst continuing to enhance its risk and capital systems.

Solvency II represents a significant change in the prudential regulation of insurers and insurance groups and, as a result, generates a number of material risks including, in particular, the following: there continue to be material uncertainties around the impact of the more detailed technical requirements of Solvency II and there is a risk that this could lead to a significant increase in the capital required to support the Group's business. There is also a risk that certain of the financial instruments issued by the Group will no longer be viewed as capital by

regulators resulting in either a lower regulatory capital position or the need to refinance those financial instruments. There could be a potentially significant increase in capital to support the Group's business and costs associated with further developments to the internal model and enhanced risk management and governance framework. There are also uncertainties around the transitional measures that will apply on implementation of Solvency II and the impact these will have on the Group. In addition, there is the risk that part or all of the Group is found not to be compliant with the new regulations or that the implementation programmes absorb excessive amounts of management time and attention with the consequent risks for the rest of the businesses' operations.

The Group continues to engage closely with the PRA in order to gain further clarification of the remaining areas of uncertainty in the application of the Solvency II requirements.

Furthermore, 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.

3.4 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.

3.5 The implementation of RDR and 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.

There has been an increased focus in the UK on the fair treatment of customers, in particular on the way in which the insurance industry or fund management industry sells and administers insurance policies or other products. This has resulted in the implementation of the recommendations of the RDR in January 2013. The RDR banned product providers from paying commission to advisers on new sales and also required certain changes to the way advisers describe their services to customers. The RDR 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 new distribution landscape has altered the way in which retail investment products are sold to customers and presents challenges to the Group's UK distribution and advisory activities in adapting to the new rules. Since the implementation of the RDR in the UK, no significant adverse impacts on the Group have been identified. However, it is possible that any future impact from the RDR may have an adverse effect on the Group's business and results of operations.

The European Commission is currently in the process of reviewing the Insurance Mediation Directive ("**IMD**") via the Insurance Mediation Directive 2 ("**IMD2**") and has also been working on an initiative in relation to Packaged Retail and Insurance based Investment Products

("**PRIIPs**") with the aim of harmonising pre-contractual disclosures and selling practices for such products. 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.

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 PRIIPs which may reduce sales. There is a risk that the rules implementing the RDR, any new rules required in due course to implement the revised IMD and any new rules relating to PRIIPs will lead to a decline in the number and/or size of distribution firms. Among other things, this is because financial advisers may decide to consolidate or leave the sector in response to anticipated increased compliance costs that may be realised and the higher professional standards required by the RDR. In the lead up to the introduction to the RDR, the number of retail investment advisers in the UK reduced. If a reduction in the capacity of the intermediary distribution sector does occur, this may result in fewer opportunities for the Group's products to be distributed by intermediary firms, which could have a material adverse effect on the Group's results, operations, and/or costs or otherwise negatively impact on the Group's distribution arrangements.

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.

3.6 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. The European Commission has adopted proposals for a directive and regulation that would change the existing rules in relation to the insurance intermediaries' exemption, and these now need to be agreed unanimously by the EU Member States, after consultation by the European Parliament. Whilst it is considered that the existing insurance intermediaries' exemption will be changed, 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.

3.7 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.

The Group faces risks associated with changes in tax law, interpretation of tax law, changes in tax rates and 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.

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.

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 is based on the tax legislation in force at that time. However, changes in tax legislation or in the interpretation of tax legislation may, 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 and therefore have a material negative impact on policyholders.

3.8 The Group may face increased compliance costs as a result of legislation passed in the U.S.

Under sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), a non-U.S. financial institution is generally required to enter into an agreement to provide information on U.S. account holders. If this information is not provided in a form and with contents satisfactory to the U.S. tax authorities, a non-U.S. financial institution will have a 30 per cent. withholding tax applied to certain amounts derived from U.S. sources, amongst other types of income.

On 1 September 2013, regulations were introduced in the UK (the "**Regulations**") to give effect to the intergovernmental agreement entered into between the UK and the U.S. to improve tax compliance, dated 12 September 2012 (the "**UK-US IGA**"). Under the UK-US IGA, UK-based financial institutions should not be subject to a 30 per cent. withholding under FATCA, unless they fail to meet the requirements set out in the UK-US IGA and the Regulations.

3.9 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, which are not expected to be finalised until 2016 at the earliest with an effective date of 1 January 2019 at the earliest, will change the presentation and measurement

of insurance contracts. It is uncertain whether and how the proposals may affect the Group should they become definitive standards. Current proposals may have an adverse effect on the manner in which the Group reports insurance provisions and, therefore, identify and report revenues, costs and financial position/condition. The changes could, therefore, have an adverse effect on the Group's financial performance and condition (including through changes affecting the calculation of taxation). These and any other changes to IFRS, if endorsed by the EU, that may be proposed in the future, whether or not specifically targeted at insurance companies, could materially adversely affect the Group's reported results of operations and their financial position.

3.10 The Group may in the future need to change the basis under which it reports its embedded value.

European-listed life insurance companies generally publish embedded value information to supplement their financial information prepared in accordance with IFRS. The Group, as well as most European-listed insurance companies, look to principles or guidelines adopted by the European Insurance CFO Forum (the "**CFO Forum**") for guidance in reporting embedded value. The Group will keep under review its approach to the embedded value reporting. If the Group follows any new principles promulgated by the CFO Forum or in the context of Solvency II, this may result in a restatement of reported embedded value results and change the reporting basis of future results. Accordingly, future reported embedded value information may be materially different, or may be prepared in a materially different manner than its current practices.

3.11 The Group could be involved in various legal proceedings and regulatory investigations 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 possible for the Group to predict with certainty the outcome of pending legal proceedings or regulatory investigations or potential future legal proceedings or regulatory investigations. Potential liabilities may be covered by insurance, but the Group's insurers may dispute coverage or may be unable to meet their obligations, or the amount of insurance coverage may be inadequate. Moreover, even if claims brought against the Group are unsuccessful or without merit, the Group may incur significant expense in defending itself against such claims, which may also be time consuming and could potentially result in reputational damage. Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects. 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, it is possible that a regulator in one of the jurisdictions in which the Group conducts, or has conducted, 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 result of such review may be to compensate customers for losses they have incurred as a result of the products they were sold.

This risk factor is without prejudice to the statement relating to legal proceedings and

regulatory investigations at paragraph 5 of the section of this Prospectus entitled "*General Information*".

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

Most of the Group's products are distributed via intermediaries. However, before the Group entered the intermediary market in 2001 with the acquisition of Scottish Life, 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 intermediaries 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 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, which may be revised from time to time, 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.

The implementation of any strategy, changes in strategy, adoption of any new strategy and/or entry into new markets could entail significant changes in the Group's business which may entail higher levels of risk or could adversely affect the results of operations, the financial condition and/or the credit and financial strength ratings of the Group. The Group may be unable to execute, or may encounter difficulties or delays in successfully executing, its business and strategic goals which are subject to the risks set out herein and other factors that are currently unforeseen and which may be beyond their control. Failure to achieve any or all

strategic goals, or the encounter of undue delay or unforeseen costs in implementing such goals, could adversely affect the Group's results of operations and financial condition, as well as the Group's reputation and standing in the marketplace.

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 The Co-operative Banking Group Limited in 2013.

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, or the Group may experience unforeseen difficulties as it integrates the acquired companies or assets into its existing operations. 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.

The success of the Group's operations is dependent, among other things, on its ability to attract and retain highly qualified professional 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 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 operates in Ireland through the Royal London Ireland 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 Group's businesses are conducted in highly competitive environments and the market for new life assurance and pensions business 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. The Group's asset management business is conducted by RLAM, which is the investment manager of the assets underlying many of the products sold by the Group, as well as for a wide range of institutional and wholesale clients. As at 31 December 2014, the proportion of RLAM's funds under management between the Group and other external clients were 74 per cent. and 26 per cent., respectively.

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. Poor investment returns in the Group's investment management business, due to either general market conditions or underperformance (relative to competitors or to benchmarks) by funds or accounts that the Group manages, may adversely affect its ability to retain existing assets and to attract new clients or additional assets from existing clients. If RLAM 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. This could adversely affect the management and incentive fees that the Group earns on assets under management and therefore have a material adverse effect on the Group's business, results of operations and financial condition.

Failure to comply with client contractual requirements and/or guidelines could result in damage awards against the Group and its fund management operations and loss of revenues due to client terminations. When clients retain the Group to manage assets on their behalf, the Group must comply with contractual obligations and guidelines agreed with such clients in the provision of its services. A failure to comply with these guidelines or contractual requirements could result in damage to the Group's reputation or in its clients seeking to recover losses, withdrawing their funds or terminating their contracts, any of which could cause the Group's revenues and earnings to decline.

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.

REPUTATIONAL RISKS

5 There are risks that one or more negative events 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, 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 its relationship with intermediaries, on whom the Group relies for the distribution of a significant proportion of its insurance products. It operates in an industry where integrity, customer trust and confidence are paramount. While the Group is well recognised and has undergone a significant re-branding transition recently to move into a single brand (Royal London), it is vulnerable to adverse market and customer perception. In moving into a single brand, there is an inherent risk of diluting or damaging established strong reputations and customer relationships.

The Group may not be able to protect its intellectual property and may be subject to infringement claims by a third party. The Group's primary brand in the UK, "Royal London" is a registered trade mark in the UK and elsewhere. The Group relies on a combination of contractual rights, copyright and trademark laws to establish and protect its intellectual property. Although the Group uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate the Group's intellectual property. The loss of intellectual property protection or the inability to secure or enforce the protection of the Group's intellectual property assets could have an adverse effect on the Group's business and its ability to compete.

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. There have been a number of highly publicised cases involving fraud or other misconduct by employees in the financial services industry in recent years. It is not always possible to deter or prevent employee misconduct and the precautions the Group takes to prevent and detect this activity may not be effective in all cases.

The Group's reputation and brands 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, including: reducing public confidence in the Group, decreasing its ability to retain current policyholders or attract new business and adversely affecting the Group's ability to obtain reinsurance or obtain such reinsurance on reasonably

pricing and terms.

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, intermediaries, 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 the conduct of 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 for the Group.

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

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 The use of inaccurate assumptions in pricing and reserving for insurance business may have a material adverse effect on the financial position of the Group.

The Group is required to make a number of assumptions in relation to the business written, including the mortality and morbidity rates of its customers (the proportion of customers dying or falling sick or recovering from illness), the development of interest rates, persistency rates (the proportion of customers retaining existing policies and continuing to pay premiums up to their maturity dates), the exercise by customers of options included within their policies and future levels of expenses. By their nature, these assumptions may prove to be incorrect. 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. The use of mis-estimated assumptions in pricing, reporting and reserving for insurance business may have an adverse

effect on business profitability.

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 will vary from the estimated amounts, particularly where the amounts are payable well into the future.

Pricing of certain products (such as pension products) 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. Changes in assumptions may also lead to changes in the level of capital required to be maintained, meaning that the Group may need to increase the amount of its reserves. This could have a material adverse impact on the Group's value, the results of its operations and financial condition.

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

Longevity risk is the risk attached to increasing life expectancy of annuitants which can eventually translate into annuities being paid for longer than expected. Longevity-related statistics are monitored in detail, compared with emerging internal experience and industry trends, and the results are used to inform both the reserving and pricing of annuities. Inevitably, there remains uncertainty about the development of future longevity and the future availability of techniques (such as reinsurance and swaps) to mitigate that risk. It is likely that uncertainty will remain in the development of future longevity that cannot be mitigated.

The Group has material exposure to annuities and a significant insurance risk is associated with longevity. Longevity statistics are monitored in detail, compared with emerging industry trends, and the results are used to inform both the reserving and pricing of annuities. Although these are mitigated through collateralised third party reinsurance arrangements, the Group is still responsible if the reinsurer defaults on its reinsurance obligations. 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.

7.6 If the Group's business does not perform well or if actual experience versus management estimates used in valuing and amortising Deferred Acquisition Costs ("DAC") and Acquired value of in-force business ("AVIF") varies significantly, it may be required to accelerate the amortisation and/or impair the DAC and AVIF which could adversely affect the results of operations or financial condition.

The Group incurs significant costs in connection with acquiring new business. Those costs that vary with and are driven by the production of new business are deferred and referred to as DAC. The recovery of DAC is dependent upon the future profitability of the related business. The amount of future profit or margin is dependent principally on investment returns credited to policyholders, mortality, morbidity, persistency and expenses to administer the business. The aforementioned factors enter into management's estimates of gross profit or margins, which generally are used to amortise such costs. If the estimates of gross profit or margins were overstated, then the amortisation of such costs would be accelerated in the period the actual amount is known and would result in a charge to income. Significant or sustained equity market declines could result in an acceleration of amortisation of the DAC related to unit-linked business, resulting in a charge to income. Such adjustments could have a material adverse effect on the results of operations or financial condition.

AVIF reflects the estimated present value of future profit that will emerge over the remaining

life of certain in-force contracts in a life insurance company, acquired either directly or through the purchase of a subsidiary, and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the insurance and investment contracts in-force at the acquisition date. AVIF is based on actuarially determined projections. Actual experience may vary from the projections. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in impairment and a charge to income. Where AVIF is amortised, an acceleration of the amortisation of AVIF would occur if the estimates of gross profit or margins were overstated in the period in which the actual experience is known and would result in a charge to net income. Such adjustments could have an adverse effect on the Group's results of operations or financial condition.

7.7 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.

7.8 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 business, results of operations, financial condition or prospects in ways that cannot necessarily be predicted.

7.9 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 business and financial condition. The Group's ability to write new business could also be adversely affected. The Group would also be exposed to reinsurer counterparty risks in such an eventuality. Furthermore, market conditions beyond the Group's control determine the availability and cost of the reinsurance protection it purchases. Accordingly, the Group may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms.

7.10 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.

The Group uses computers to store, retrieve, evaluate and utilise customer, employee and company data and information. 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, including, without limitation, processing premium payments, making changes to existing policies, filing and paying claims, administering annuity products, and managing the Group's investment portfolio. Furthermore, the long-term nature of the Group's business means that accurate records have to be maintained for significant periods.

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. 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 (including as a result of human error) will have an adverse effect on the Group's operations. Although the Group continues to monitor and take steps to upgrade systems and processes to reduce these operational risks, the Group cannot anticipate the details or timing of all possible operational and systems failures which may adversely impact its business.

A 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.

The Group's businesses are also exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of "rogue traders" or other employees. It is not always possible to deter employee misconduct, and the precautions the Group takes to prevent and detect this activity may not always be effective.

This risk factor should not be taken as implying that either the Issuer or the Guarantor will be unable to comply with their respective obligations as companies with securities admitted to the Official List.

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.

This risk factor should not be taken as implying that either the Issuer or the Guarantor will be unable to comply with their respective obligations as companies with securities admitted to the Official List.

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. Unanticipated or incorrectly quantified risk exposures and/or inadequate or incorrect responses to these risk exposures could result in a material adverse effect on the Group's business, results of operations and/or financial condition. 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.

The Group employs a range of risk mitigation strategies including the use of equity, interest rate and credit derivatives and reinsurance arrangements to reduce market, credit and insurance risk. A range of different modelling approaches are used to derive and evaluate the strategies adopted. The breakdown of the assumptions used in these modelling approaches, which may occur during market dislocations, could cause these risk mitigation strategies to be less effective than anticipated and thereby adversely affect the Group's financial condition and results of operations.

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

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 adversely 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. Despite the controls put in place, there remains a risk that this data could be lost and or misused as a result of an intentional or unintentional act by parties internal or external to the Group. 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 material liability under applicable data protection laws. Additionally, 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. This could potentially lead to regulatory censure, fines, the need to compensate customers, the cost of remediation and other financial costs, damages to the Group's brands and reputation, as well as 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 liabilities. 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.

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. The factors that affect the scheme's position include: poor performance of pension fund investments; greater life expectancy than assumed; adverse changes in interest rates or inflation or discount rates; and other events occurring that increase the costs of past service benefits over the amounts predicted in the actuarial assumptions. In the short term, the funding position is inherently volatile due to movements in the market value of assets. Should a funding deficit arise, where necessary, appropriate actions, including possible further contributions from the Group, will be agreed with the scheme trustees. This may include a plan to fund the deficit over a period of years.

UK pension schemes are subject to statutory requirements with regards to funding and other matters relating to the administration of the schemes. Compliance with these requirements is

subject to regular review. A determination that the Group has failed to comply with applicable regulations could have an adverse impact on the Group's results of operations or its relationship with current and potential contributors and employees, and adverse publicity. 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.

8.7 The Group has a number of significant change programmes underway across its businesses. If the Group is unable to manage the level of change efficiently and effectively there is a risk of a material adverse effect on the Group's business, financial position and profits.

The Group has completed a number of significant internal change programmes to continuously improve its capabilities and the experience of its customers, and has a number of significant change programmes underway across its businesses. These include changes required in preparation for Solvency II and other regulatory changes, the brand transition programme and the recapture of previously outsourced administration or IT services back into the Group such as the implementation of a new administration system in Royal London Platform Services. During this period of change, there is a risk that the Group's risk management and controls may be weakened or that the Group is unable to manage the level of change efficiently and effectively, which could have a material adverse effect on the Group's business, financial position and profits. The Group also faces risk that its continued growth plans, combined with the significant amount of external changes in markets, regulation and legislation, may result in possible future inefficiencies or ineffective organisational delivery, operational loss and reputational damage which in turn may adversely affect the Group's business and financial position.

(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. 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 must, under certain circumstances, be deferred

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, (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 (subject to any deferral of such redemption date pursuant to Condition 8(*b*)) 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*) or 8(*e*) 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, 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.

The Guarantor currently expects the Notes, upon the implementation of Solvency II, to qualify (subject to any applicable limitations on the amount of such capital) as Tier 2 Capital. However, there is a risk that following any change to the Relevant Rules, the Notes will cease to qualify as Tier 2 Capital 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, which would entitle the Issuer to redeem the Notes early at their principal amount

together with any Arrears of Interest and any other interest accrued but unpaid to (but excluding) the date of redemption.

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 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 a Capital Disqualification 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 notes are exposed to specific market risks

The Notes bear a fixed rate of interest. 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.

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

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. FATCA Withholding*"). Further, foreign financial institutions in a jurisdiction, such as the United Kingdom, which has entered into an intergovernmental agreement with the United States (an "IGA") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make on securities such as the Notes. 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), and 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 are expected to be rated BBB+ by S&P and Baal 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 Directive on the Taxation of Savings Income

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 secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria 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 it elects otherwise.

The Council of the European Union has adopted a Directive (the "**Amending Savings Directive**") which would, if implemented, amend and broaden the scope of the requirements of the EU Savings Directive described above, including by expanding the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and by expanding the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The European Commission has published a proposal for a Council Directive repealing the EU Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case

subject to transitional arrangements). The proposal also indicates that, if it is adopted, EU Member States will not be required to implement the Amending Savings Directive.

If a payment were to be made which is subject to a withholding requirement pursuant to the EU Savings Directive 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 the EU Savings Directive, none of the Issuer, the Guarantor, any Paying Agent or 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. Furthermore, if the Amending Savings Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

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 £350,000,000 6.125 per cent. Guaranteed Subordinated Notes due 2028 (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. 3 plc (the "**Issuer**") passed on 27 October 2015. 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 24 November 2011, a resolution of the Board Administration Committee of the Board of Directors of the Guarantor passed on 23 October 2015 and a resolution of a committee of the Board of Directors of the Guarantor passed on 4 November 2015. The Notes are constituted by a trust deed (the "**Trust Deed**") dated 13 November 2015 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 13 November 2015 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 Conditions 2(*d*) and 2(*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(*d*) 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. 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(*d*) 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 4(*b*)(i) and 4(*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 these 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*) and 8(*e*).

5 Interest

(a) Interest Rate

Each Note bears interest on its principal amount at the rate of 6.125 per cent. per annum (the "**Interest Rate**") from (and including) the Issue Date to (but excluding) the Maturity Date (or such later date as the Notes become due for redemption) in accordance with these Conditions and shall, subject to Conditions 3(*c*) and 6, be payable annually in arrear on each Interest Payment Date, in each case as provided in this Condition 5.

Accordingly, the amount of interest payable, subject to Conditions 3(*c*) and 6, on each Interest Payment Date shall be £61.25 in respect of each £1,000 in principal amount of a Note.

(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) Calculation of Interest

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.

6 Deferral of Interest

(a) 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(*e*) (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.

(b) *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) on a Regulatory Deficiency Interest Deferral Date in accordance with Condition 6(*a*) or (ii) 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).

(c) *Arrears of Interest*

Any interest on the Notes not paid on an Interest Payment Date as a result of (i) any mandatory deferral of such payment of interest pursuant to Condition 6(*b*) or (ii) 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.

(d) *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(*d*)(i) and 6(*d*)(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(*a*)); 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.

(e) *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 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

(ii) 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 13 November 2028 (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*) or 8(*e*) 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*) or 8(*e*) as a result of Condition 8(*b*)(i) above, the Issuer shall (subject to satisfaction of the Regulatory Clearance Condition and, in the case of (1) and (2) below, 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, variation or substitution for taxation reasons*

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

(i) as a result of any change in (or 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(*d*)(i)(a) and 8(*d*)(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(*d*)(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(*d*)(i)(c) above; or (C) with respect to Condition 8(*d*)(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(*d*)(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(*g*) 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.

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

(i) Subject to Conditions 8(*b*)(i), 8(*b*)(iv) and 8(*g*), if a Capital Disqualification Event has occurred and is continuing, 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 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. 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(*g*) 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.

(ii) For the purposes of this Condition 8(*e*), "**Notice Period**" means the period commencing on the date on which the relevant Capital Disqualification Event first occurs 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.

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

Subject to Condition 8(*g*), 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(*d*) or 8(*e*) 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.

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

(i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 8(*d*) or 8(*e*), 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*(d)*(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 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) 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) Any redemption or purchase of the Notes by the Issuer or the Guarantor prior to the fifth anniversary of the Issue Date may only be made on condition that such redemption or purchase is funded (to the extent then required by the PRA or the Relevant Rules) out of the proceeds of a new issuance of capital of at least the same quality as the Notes and being otherwise permitted

under 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.

(h) *Compliance with stock exchange rules*

In connection with any substitution or variation of the Notes in accordance with Condition 8(*d*) or Condition 8(*e*), 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.

(i) *Purchases*

Subject to Conditions 8(*g*)(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.

(j) *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(*i*), 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 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 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 Profit Share 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 Profit Share 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 such Note 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 these 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) 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*) 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(*d*) 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 credit rating agency immediately following such substitution, and the ratings assigned to the Notes by each such credit 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(*d*) or 8(*e*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer 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(*d*), 8(*e*) 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(*d*) or 8(*e*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer 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:

"**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(*c*);

"**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 the Notes are fully excluded from counting as 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 such non-qualification is only as a result of any applicable limitation on the amount of such capital;

"**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);

"**Directive**" means Directive 98/78/EC of the European Union on the supplementary supervision of insurance undertakings in an insurance group, as amended 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;

"**EIOPA**" means the European Insurance and Occupational Pensions Authority;

"**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;

"**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*);

"**Insolvent Insurer Winding-up**" means:

(a) the winding-up of any insurance undertaking within the Insurance Group; or

(b) the appointment of an administrator of any insurance undertaking within the Insurance Group,

in each case, where the assets of that insurance undertaking within the Insurance Group may or will be insufficient to meet all the claims of the policyholders pursuant to a contract of insurance of that insurance undertaking which is in winding-up or administration (and for these purposes, the claims of policyholders pursuant to a contract of insurance shall include all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up of insurance undertakings to reflect any right to receive or expectation of receiving benefits which policyholders may have);

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

"**insurance undertaking**" has the meaning given to it in the Solvency II Directive;

"**Interest Payment Date**" means 13 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**" has the meaning given in Condition 5(*a*);

"**Issue Date**" means 13 November 2015;

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

"**Level 2 Regulations**" means the Commission Delegated Regulation (EU) No. 2015/35 of 10 October 2014 supplementing the Solvency II Directive;

"**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;

"**Minimum Capital Requirement**" means the Minimum Capital Requirement or the minimum group Solvency Capital Requirement (as applicable) or any other minimum capital requirement, group minimum capital requirement or other equivalent capital requirement howsoever described in the Relevant Rules;

"**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(*e*)(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;

"**Profit Share 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;

"**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 Relevant Rules 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;

"**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 pursuant to the Relevant Rules, 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 Relevant Rules 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 event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Guarantor, the Insurance Group or any member of the Insurance Group to be breached and where such breach

is an event) which under Solvency II and/or under the Relevant Rules requires 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)) 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, where an Insolvent Insurer Winding-up has occurred and is continuing and any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Guarantor, the Insurance Group or any member of the Insurance Group to be breached and where the continuation of such Insolvent Insurer Winding-up is, or as the case may be, such breach is, an event) which under Solvency II and/or under the Relevant Rules requires 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)) 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) in the jurisdiction of the PRA (including, without limitation, those implementing the Directive or, as applicable, Solvency II) and any relevant prudential rules for insurers applied by the PRA and any amendment, supplement or replacement of either thereof from time to time relating to the characteristics, features or criteria of own funds or capital resources;

"**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 Profit Share 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 Profit Share 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 (including, without limitation, the Level 2 Regulations), by further directives or application of relevant EIOPA guidelines or otherwise);

"**Solvency II Directive**" means Directive 2009/138/EC of the European Parliament and of the Council 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 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 (as applicable) 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*);

"**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 the 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 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 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.

3 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).

4 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) of the schedule to the Global Certificate.

5 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.

6 Meetings

The 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.

7 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.

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 against the Trustee, 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 principal 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, (i) by accountholders in the clearing system with entitlements to such Global Certificate and/or (ii) 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 held. For the purpose of establishing entitlement to give any such consent or instruction, the Issuer, the Guarantor and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, Euroclear, Clearstream, Luxembourg or any other relevant Alternative Clearing system (the "**relevant clearing system**") and, in the case of (ii) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (ii) above. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall 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 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 and used by the Guarantor for general corporate purposes.

The expenses related to the admission of the Notes to trading on the London Stock Exchange are expected to be £4,200.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in England and Wales on 30 June 2015 under the Companies Act 2006 (as amended) and registered in England and Wales with registered number 9664420.

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 all of which are 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
Tim Harris	Director
Martin Lewis	Director
Thaddeus Nyahasha	Director

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

Tim Harris 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

The following table sets out the capitalisation of the Issuer as at the date of this Prospectus:

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

Financial Statements

Since the date of its incorporation, the Issuer has not commenced any operations save in connection with the issuance 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 with the first such financial statements being for the financial year ending 31 December 2015. 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 and regulations made thereunder.

The Group operates principally in the United Kingdom life insurance and pensions market, with approximately 5.3 million customers and £82.3 billion in funds under management as at 31 December 2014.

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 brand, either directly to customers or through intermediaries such as independent financial advisers ("**IFAs**"). As described under "*The Group's History – General*", the Group has been undergoing a re-branding programme under which its businesses have largely been brought under the Royal London brand and such programme will continue over the course of 2015. 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. The articles of association of the Guarantor 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 exclude any customers holding only contracts transferred into the long-term funds of the Guarantor from businesses previously acquired by the Group (including Scottish Life Assurance, companies in the United Assurance Group, Phoenix Life Assurance Limited, Royal Liver Assurance Limited and The Co-operative Insurance Society Limited ("**CIS**")). A member holding a relevant with-profits policy is entitled to participate in the profits generated by the Guarantor. Upon a winding up of the Guarantor, any surplus is distributable amongst its members. The management of the Guarantor is vested in the Directors who are subject to election by the members at the Guarantor's Annual General Meeting and, subject to certain exceptions, to re-election at least once every three years thereafter. In recent years, all Directors have sought re-election each year.

Recent Developments

The unaudited interim financial results of the Guarantor for the six months ended 30 June 2015 were published via RNS on 18 August 2015 and the unaudited interim management statement and third quarter results of the Guarantor were published via RNS on 2 November 2015, each of which are incorporated by reference herein. See "*Documents Incorporated by Reference*".

Organisational structure of the Group

Fund structure

As at the date of this Prospectus, the Guarantor comprised the Royal London Open Fund and the 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 Closed Sub-Funds are committed to support it if they can.

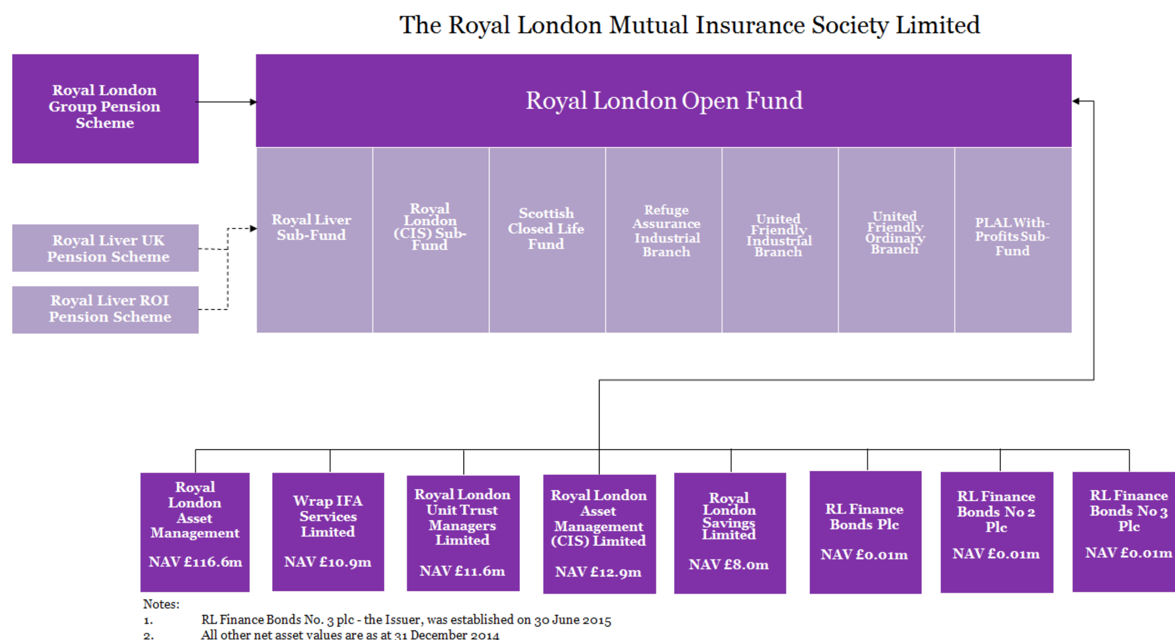
Organisational structure

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
RL Marketing (CIS) Limited…………………………………….	England	100	ISA management
Royal London Savings Limited	England	100	ISA management
RL Finance Bonds plc	England	100	Finance company
RL Finance Bonds No.2 plc..	England	100	Finance company
Wrap IFA Services Limited...	England	100	Wrap platform management
RLUM (CIS) Limited	England	100	Unit trust management

Name of Company	Country of Incorporation	Percentage owned	Nature of Business
Royal London Management Services Limited	England	100	Service company

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.



The Group's history

General

In summary, the growth of the Group has encompassed a mixture of organic growth and strategic acquisitions:

- The Group established the RLAM business 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, now the Group's Ascentric business, in 2007.
- 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 (which was launched in 2009).
- The Group acquired Royal Liver Assurance Limited and its subsidiaries in 2011.
- The Group acquired the life and pensions business and asset management businesses of the Co-operative Group, namely CIS and The Co-operative Asset Management ("**TCAM**"), in 2013.
- The Group disposed of Royal London 360° and its subsidiaries in 2013 through a private-equity supported management buyout.
- During the course of 2014, the Group commenced a re-branding programme intended to bring all of its businesses under a single, distinctive Royal London brand. As part of this re-branding programme, the Group has brought most of its UK and Ireland life, pension and investment businesses under the Royal London brand and in 2015 will continue to bring the remainder of its businesses (Bright Grey and Scottish Provident) under the Royal London brand. The Group's independent wrap platform (as further described in "*Royal London Platform Services*" below) will remain branded Ascentric.

As a result of a mixture of organic growth and strategic acquisitions, the Group's customer base has increased, which has enabled it to achieve significant cost synergies on an on-going basis. The long-term business acquired through acquisition has been subsequently transferred into the Guarantor, including the businesses of RL (CIS) which was transferred by way of a court-sanctioned business transfer under Part VII of FSMA to the Guarantor in 2014.

The Group did not make any further acquisitions in 2014 but instead concentrated on the successful integration of RL (CIS) and its subsidiaries and RLAM (CIS) into the Group.

Recent acquisitions and Part VII Transfers

Acquisition of RL (CIS) and RLAM (CIS) in 2013

On 31 July 2013, the Group acquired the life and pensions business and asset management business of the Co-operative Banking Group by acquiring the entire issued share capital of CIS and TCAM. As part of the completion of the acquisition, CIS was converted from an Industrial and Provident Society into a limited company. On 1 August 2013, CIS was renamed as Royal London (CIS) Limited ("**RL (CIS)**") and TCAM was renamed Royal London Asset Management (CIS) Limited ("**RLAM (CIS)**").

The acquisition increased the assets under management of the Group to over £70 billion and its customer base from approximately 4 million to approximately 6 million. The number of members of the Group remain unchanged at 0.5 million.

Part VII Transfers effected in 2014

On 30 December 2014, the entire long-term business and related assets and liabilities of RL (CIS) was transferred to the Guarantor by way of a transfer made under Part VII of FSMA. The assets and liabilities of RL (CIS) were placed into a separate closed sub-fund of the Guarantor called the Royal London (CIS) Sub-Fund.

On 30 December 2014, the Guarantor also transferred the life insurance business of Royal London Pooled Pensions Company Limited ("**RLPPC**"), a company owned by the Guarantor which sells a single product providing investment funds for pension schemes, into the Guarantor.

No consideration was paid for either Part VII transfers and the transfers resulted in no gain or loss for the Guarantor.

The transfer in respect of the business of RL (CIS) resulted in £27,111 million of assets and £27,111 million

of liabilities being transferred into the Guarantor.

The transfer in respect of the business of RLPPC resulted in £3,227 million of assets and £3,227 million of liabilities being transferred into the Guarantor.

Historically, RL (CIS) was a composite insurer, writing both life and general insurance business. However it stopped writing general insurance business in 2006 whilst it was part of the Co-operative Banking Group. RL (CIS)'s residual general insurance business was primarily reassured to The Co-operative Group's general insurance business, CIS General Insurance Limited ("**CISGIL**") under an indemnity agreement. As contemplated by the terms of the share purchase agreement relating to the acquisition of RL (CIS), the entire general insurance business of RL (CIS) and the related assets and liabilities were transferred to CISGIL by way of a court sanctioned transfer under Part VII of FSMA. This transfer was effective on 31 March 2014 and resulted in £86 million of assets and £86 million of liabilities of RL (CIS) being transferred back to the CISGIL.

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 provider of life insurance and investment products in the eyes of its customers. It aims to raise consumer awareness of Royal London and drive increased new business through its Intermediary, Consumer and Wealth Divisions. 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 Profit share; and
- offering more to customers and members than its shareholder-owned competitors.

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

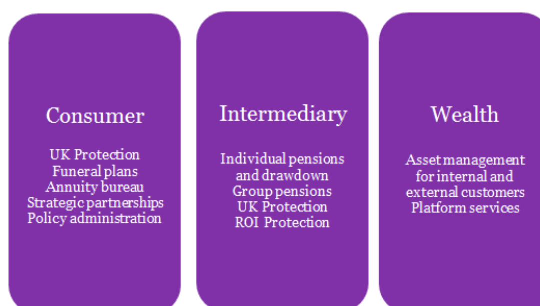
Distribution

The Group is structured into three Divisions, to focus on its three key customer segments and the related distribution channels that serve them:

- the Consumer Division focuses on the mass market and products and services are sold directly to consumers;
- the Intermediary Division focuses on the mass affluent segment and solutions are sold via independent distributors such as IFAs; and

- the Wealth Division focuses on institutional and wholesale wealth management customers.

The diagram below sets out the business units of the Group and reflects how the Group's business was structured and managed as at 31 December 2014.



The Group is currently implementing a strategic re-branding programme in order to move all of its UK and Ireland Life, pension and investment businesses under a new version of the Royal London brand. As at the date of this Prospectus, most of the Group's businesses have been transitioned into the Royal London brand, save for Bright Grey and Scottish Provident. These remaining brands are planned to be moved into the Royal London brand during 2015. The Group's independent wrap platform (as further described in "*Royal London Platform Services*" below) will remain branded Ascentric.

Consumer Division

In 2014, the Guarantor firmly established its new Consumer Division which brought together existing operations under this consumer-focused division, launched new products and made those products available through a wider range of channels, such as via the internet as well as by telephone and by post. This enabled the Group to build strong relationships directly with customers, through online and offline channels, and to reach middle and lower income households in the UK by helping them meet their core financial needs through a range of non-advised propositions.

Additionally, the Consumer Division leads the management of all of the Group's closed books (with approximately 8 million live policies across Royal London, Phoenix Life Assurance Limited, Royal Liver Assurance Limited, RL (CIS) and others) in line with its operating model, risk management standards and efficiency targets. The Guarantor is building capabilities that enable it to effectively engage with and market to its existing customers and to identify opportunities for realising further value from these books.

Intermediary Division

Pensions

Royal London Pensions 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. Royal London Pensions wrote £4,454 million of new business in 2014 on a Present Value of New Business Premiums ("**PVNBP**") basis. Products offered by Royal London Pensions 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 (the Retirement Solutions product) and the defined benefit market.

Protection

The Group currently has two UK-based protection brands, Bright Grey and Scottish Provident, which provide protection products through intermediaries. Together, these two business units wrote £294 million of new business in 2014 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.

As part of the Group's re-branding programme, the businesses of Bright Grey and Scottish Provident are intended to be brought together as business units under the new Royal London brand during 2015.

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; this service has been extended to Royal London Ireland. Bright Grey wrote £135 million of new business in 2014 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.

Scottish Provident wrote £159 million of new business in 2014 on a PVNBP basis.

Royal London Ireland

Royal London Ireland (which was previously Caledonian Life) is the Group's business unit providing protection products to the Republic of Ireland through intermediaries. Caledonian Life was acquired by the Group in July 2011 as part of the Royal Liver transaction and was subsequently rebranded to Royal London Ireland in December 2014 as part of the Group's re-branding programme.

Royal London Ireland's products include life term assurance, mortgage protection, business assurance, income protection, pension term assurance and specified serious illness cover.

Royal London Ireland wrote £44.1 million of new business on a PVNBP basis in 2014. Royal London's share of the Irish broker protection market has grown from approximately 5 per cent. in 2011 to a near 16 per cent. share as at February 2015 (Source: Milliman Consulting Actuaries). Royal London Ireland's primary strategy is to grow its share and profitability of the Irish broker protection market, which will directly contribute to the

Group's strategic ambition in this area.

Wealth Division

The Group's wealth division consists of two investment-related businesses. Royal London Asset Management Limited, which manages assets on behalf of internal and external clients, and Royal London Platform Services, which is the Group's independent wrap platform services which trades as Ascentric and enables advisers to manage their clients' long-term savings and investments.

Royal London Asset Management

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.

Over the course of 2014, RLAM (CIS) which was acquired from the Co-operative Banking Group in 2013, was integrated into RLAM. In October 2014, RLCM, the cash management business of the Group, was transferred into RLAM, with all of RLCM's existing clients opting to move their contracts to RLAM.

RLAM achieved net new external business sales of £2,005 million in 2014. At the end of 2014, RLAM managed approximately £82.3 billion of assets, invested in equities, bonds, property and cash.

The table below sets out the division of RLAM's total assets under management as at 31 December 2014 by asset allocation and by product type:

Asset allocation as at 31 December 2014	**£**
	(billions)
Fixed income	40.8
Equities	25.4
Cash	7.5
Property	5.1
Other	3.5
Total	**82.3**

Product type as at 31 December 2014	**£**
	(billions)
Pension and other institutional	17.5
Unit Trusts & OEICs (Open-Ended Investment Company) Funds	21.8
Unit-linked life and pension	10.3
With-profits	31.8
General Insurance	0.9
Total	**82.3**

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 Guarantor's Capital Management Committee and Investment Committee monitor 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 2014:

	Group	
	2014	**2013**
	(£m)	
Derivatives		
Unquoted	3,123	1,254
Total financial investments classified as held for trading	3,123	1,254

	Group	
	2014	**2013**
	(£m)	
Equity securities		
Quoted	19,052	18,144
Unquoted	539	931
	19,591	19,075
Debt and fixed-income securities		
Government bonds	15,871	14,227
Other quoted	11,145	8,870
Loans secured by policies	9	10
Deposits with credit institutions	1,586	1,896
Other unquoted	2,815	2,569
	31,426	27,572

	Group	
	2014	2013
	(£m)	
Other investments		
Unit trusts and other pooled investments	5,352	4,420
Total financial investments designed as FVTPL[1]	56,369	51,067

[1] Fair value through profit or loss

In order to minimise its exposure to credit risk, the Group invests primarily in higher graded assets, rated BBB, or above. As at 31 December 2014, 55 per cent. of the Group's asset portfolio was invested in fixed income investments and cash, compared to 57 per cent. at 31 December 2013.

As at 31 December 2014, the Group's exposure to sovereign debt of Greece, Ireland, Italy, Portugal and Spain represented less than 1 per cent. of the total investment portfolio (as at 31 December 2013, this was also less than 1 per cent.).

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

	31 December 2014	31 December 2013
	(£m)	
UK	14,146	12,239
Germany	233	182
France	107	126
Ireland	2	-
Italy	39	26
Spain	10	9
Slovenia	-	16
Belgium	34	37
Austria	26	30
Finland	25	28
Holland	28	37
Other Europe	143	21
USA	368	193
Canada	21	13
Japan	90	81
Rest of World	39	14
Total	15,311	13,052

Royal London Platform Services

Royal London Platform Services is the Group's independent wrap platform service which trades as Ascentric and enables IFAs to manage their clients' long-term savings and investments.

This service is provided to IFAs through the Ascentric and to large distributors and product providers through the Investment Funds Direct Limited white-label solution. Through a wrap account, IFAs and their clients can select and purchase investments from a wide range of solutions, including a wide variety of funds, stocks and shares, bonds, structured products and cash. These investments may be held within wrappers that enjoy certain tax advantages (such as ISAs, Self Invested Pension Plans ("**SIPPs**"), Personal Pensions and Investment Bonds). Assets not held within a specific tax wrapper are held within a general investment account. Ascentric's products include a taxed account (General Investment Account), ISA, SIPP, Onshore Bond and Offshore Bond. Ascentric wrap platform services help IFAs and their clients manage their finances through online access to their investments with a clear charging structure.

Ascentric achieved net new assets of approximately £1,242 million in 2014. As at 31 December 2014, total assets under administration increased to approximately £8.87 billion from approximately £7.3 billion as at 31 December 2013, and increased further to approximately £9.53 billion as at 31 March 2015.

Discretionary Profit share

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 'Profit share' to certain qualifying with-profits policyholders. Any decision by the Board to allocate a Profit share is discretionary and will be made on a year-by-year basis depending upon several factors including the level of profit earned and the Group's capital strength.

The Guarantor declared a discretionary Profit share of £60 million (after tax) in respect of the financial year ending 31 December 2014 and £81 million (after tax) in respect of the financial year ending 31 December 2013 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 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.

The amount of the Profit share in respect of 2014 was reduced when compared to 2013 mainly as a result of the financial impacts of new regulation during 2014, in particular, the 0.75 per cent. cap imposed by the UK Government on the annual management fee that workplace pension providers can charge their customers.

ProfitShare arrangements

On 7 October 2015, the Guarantor introduced a "ProfitShare" arrangement ("**ProfitShare**") to allocate, on a discretionary basis, a proportion of the profits earned on the businesses of the Group to certain qualifying unit-linked pension and drawdown policyholders.

From 1 January 2016, in addition to the discretionary Profit share allocations to certain qualifying with-profits policyholders (as described in "*Description of the Guarantor - Discretionary Profit share*" above), a new ProfitShare amount will be allocated to certain new policyholders purchasing a unit-linked pension plan and to certain existing policyholders who have set-up a unit-linked pension plan. Based on the Group's previous experience and future business plans, the Guarantor intends to target an allocation of ProfitShare of between

0.15 - 0.25 per cent. of the unit-value of the qualifying policyholder's pension plan.

There is no guarantee that a ProfitShare will be allocated each year as this will depend on the financial strength and overall performance of the businesses of the Group. Any decision by the Board to allocate a ProfitShare is discretionary and will be made on a year-by-year basis depending upon several factors including the level of profit earned and the Group's capital strength.

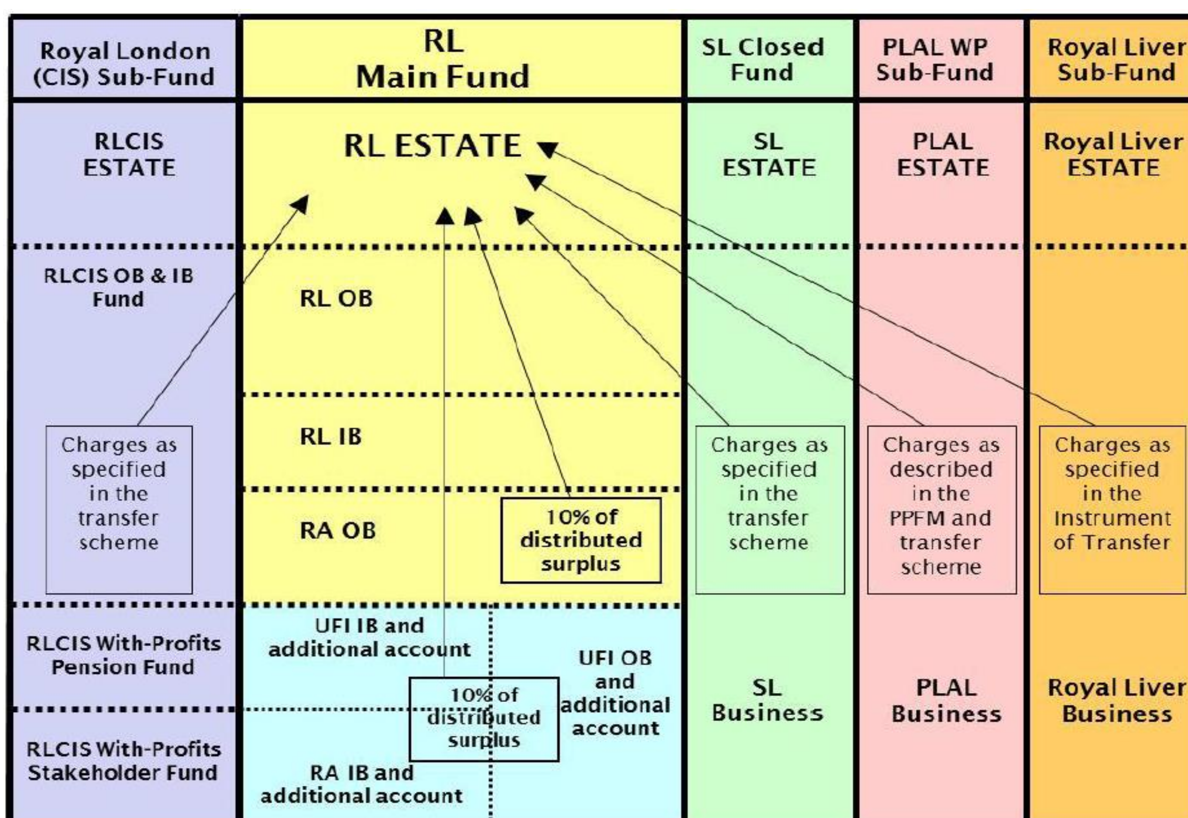
As described in the announcement dated 7 October 2015 relating to the ProfitShare arrangements, the Guarantor estimates that approximately 600,000 existing pension policyholders of the Group, and over the next five years approximately 400,000 new pensions policyholders, will be eligible to participate in the ProfitShare arrangements.

To ensure that existing with-profits policyholders who are eligible to participate in the discretionary Profit share (as described in "*Description of the Guarantor - Discretionary Profit share*" above) are not adversely affected by the introduction of the ProfitShare arrangements to policyholders with unit-linked pensions, the proportion of profits of the Group that will be available for distribution will be increased but remain within the agreed Capital Management framework; it is expected that the distribution will return closer to existing levels in time as existing with-profits policies mature.

Capital management

Royal London With-Profits Fund

The fund structure of the Guarantor as at 31 December 2014 is illustrated as follows:



With-profits Fund	Net Assets	Realistic Available Capital	Equity Backing Ratio
	(£m)		(%)
Royal London Open Fund	8,185	3,523	62
RL (CIS) Sub-Fund	16,502	2,273	56
Scottish Life Closed Fund	2,306	210	22
United Friendly OB	2,524	117	36
Royal Liver Sub-Fund	1,555	243	46
United Friendly IB	1074	127	65
PLAL With-Profits Sub-Fund	691	27	39
Refuge Assurance IB	250	55	48

	Total assets and liabilities
	(£m)
RLM Unit Linked	21,629
RLM Non Profit	308

The Royal London With-Profits Fund comprises the Royal London Open Fund and a number of Closed Sub-Funds arising from businesses that the Group has acquired. The Closed Sub-Funds include United Friendly OB, United Friendly IB and Refuge Assurance IB sub-funds. All new business is written into the Royal London Open Fund.

The Scottish Life, Phoenix Life Assurance Limited, Royal Liver and RL (CIS) sub-funds are ring-fenced and not part of the Royal London With-Profits Fund.

Self-sufficiency of the Closed Sub-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 a Closed Sub-Fund moves into deficit. Similarly, should the Royal London Open Fund move into deficit and has insufficient assets to meet its guaranteed liabilities, the Group has committed the 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 2014 and 2015 to date, the closed sub-funds have continued to be self-sufficient with no support required from the Royal London Open Fund.

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 surplus at 31 December 2014 on an IFRS basis was £48 million.

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 2014 Royal Liver UK had a surplus of £77 million and Royal Liver ROI had a surplus of £30 million 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 identify, mitigate, monitor and quantify significant risks to which the Group is exposed.

This approach enables the early identification of risks and, through an assessment of likelihood and impact, the Group seeks to understand fully the dimensions of the exposures it faces. In response to unacceptable exposures, targeted action plans are put in place.

Risk management

The Group has established committees and procedures for managing risks, including a Board Risk Committee, Executive Risk Committee, Capital Management Committee, Internal Model Governance Committee and Customer Standards Committee, as described below, together with a description of the Group's risk appetite. Regular reporting on risks and mitigating actions is undertaken by individual business units through the Executive Risk Committee to the Board Risk Committee.

Board Risk Committee

The Board Risk Committee is a sub-committee of the Board, providing it with guidance on the risk management of the Group. The role of the Committee is to ensure that the interests of the members of The Royal London Mutual Insurance Society Limited are properly protected through the application of effective risk and capital management frameworks.

The Committee has a non-executive Chair.

Executive Risk Committee

The role of the Committee is to monitor the risk management processes, to develop the overall risk strategy of the Group and to ensure that appropriate action is taken to manage risk.

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

Capital Management Committee

The role of the Committee is to advise and support senior management and the Board regarding the Group's capital position. It also ensures 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 Statements 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 review, challenge and approve the overall design, implementation and performance of the Internal Model of the Group including its scope and application.

The Committee is chaired by the Group Chief Actuary and reports to the Board Risk Committee, a committee of the Board.

Customer Standards Committee

The role of the Committee is to oversee customer outcomes in relation to our customer strategy. It provides challenge over business practices relevant to the Group's strategic customer objectives and conduct regulatory requirements.

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

Group risk appetite

The Group's risk appetite statements set 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. The Group's risk strategy defines the key principles that set out the way the Group takes on, approaches and manages the risks that it is (or could be) exposed to in the pursuit of its business objectives. The Group's risk strategy also defines the risks that the Group views as being desirable, neutral, or undesirable. The Board has approved risk appetite statements for five categories of risk as follows:

Category	Risk Appetite Statement
Capital	The Group will ensure it has sufficient capital in excess of its regulatory requirements to be broadly consistent with an AA credit rating. The Closed Sub-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 Group aims to manage its earnings volatility such that profits are within a defined percentage of its target. It 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 Group is averse to risk exposures that could impact the Group's reputation or brand.
Operational	The Group acknowledges that a certain level of operational risk needs to be taken. It 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 Group seeks to ensure there is sufficient liquidity to meet the Group's 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 are expected to be 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 its PRA 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 ICA basis.

The Guarantor's regulatory capital position as at 31 December 2014 and 31 December 2013 is set out in the table below:

	31 December 2014			31 December 2013			
	Open funds	**Closed Sub-Funds**	**Total**	**Open funds**	**Closed Sub-Funds**	**RL (CIS) Adjustment**	**Total**
							(£m)
Available capital (including tier 2 capital)	**3,917**	**9,449**	**13,366**	3,184	2,586	3,333	9,103
Capital required	**(527)**	**(814)**	**(1,341)**	(435)	(290)	(504)	(1,229)
Surplus	**3,390**	**8,635**	**12,025**	2,749	2,296	2,829	7,874
Restriction on surplus of closed sub- funds	**-**	**(8,635)**	**(8,635)**	-	(2,296)	(2,829)	(5,125)
Excess capital	**3,390**	**-**	**3,390**	2,749	-	-	2,749
Capital cover	**744%**	**100%**	**134%**	732%	100%	100%	143%

The Guarantor's available capital increased from £9,103 million as at 31 December 2013 to £13,366 million as at 31 December 2014 and the excess regulatory capital increased from £2,749 million to £3,390 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 31 December 2014 and 31 December 2013.

	31 December 2014			31 December 2013		
	Open funds	**Closed Sub-Funds**	**Total**	**Open funds**	**Closed Sub-Funds**	**Total**
			(£m)			
Available capital (including tier 2 capital)	3,407	3,052	6,459	3,074	972	4,046
Capital required	(15)	—	(15)	—	—	—

	31 December 2014			31 December 2013		
	Open funds	**Closed Sub-Funds**	**Total**	**Open funds**	**Closed Sub-Funds**	**Total**
			(£m)			
Surplus	**3,392**	**3,052**	**6,444**	3,074	972	4,046
Closed fund transfer commitments	**—**	**(3,052)**	**(3,052)**	—	(972)	(972)
Excess capital	**3,392**	**—**	**3,392**	3,074	—	3,074

The Guarantor's excess surplus realistic capital (the excess of assets over liabilities, as measured by the realistic reporting requirements) has increased from £3,074 million as at 31 December 2013 to £3,392 million as at 31 December 2014.

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 Profit Share*". 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, Phoenix Life Assurance Limited, Royal Liver and RL (CIS) sub-funds).

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 31 December 2014 and 31 December 2013 were £242 million and £229 million, respectively. The investment management fees incurred by the Guarantor for the years 31 December 2014 and 31 December 2013 were £13 million and £13 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 Newspaper Holdings Limited
Phil Loney	Group Chief Executive	Director of the Association of British Insurers
Tim Harris……………………..	Group Finance Director	Fellow of the Institute of Chartered Accountants and a Chartered Insurance Practitioner
Andrew Carter	Executive Director	—
Jon Macdonald	Group Risk Director	Member of the Institute of Actuaries' Risk Management Executive Committee
Sally Bridgeland………………	Non-Executive Director	Trustee of NEST Corporation Chair of the Education Committee of the Worshipful Company of Actuaries and a trustee of its charitable trust Member of FTSE's Policy Group
Ian Dilks……………………….	Non-Executive Director	Chair of the NHS Litigation Authority
Duncan Ferguson	Senior Independent Director	Chairman of Guardian With-Profits Committee
Tracey Graham	Non-Executive Director	Non-executive director of RPS Group Plc and Dialight Plc
Andrew Palmer	Non-Executive Director	Non-executive director of Direct Line Insurance Group Member of the Financial Reporting Review Panel Trustee and honorary treasurer of Cancer Research UK
David Weymouth.......................	Non-Executive Director	Non-executive director of the Financial Services Compensation Scheme

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 appointed Chairman after the AGM in 2013. Rupert has extensive financial services industry experience. He was chairman of Henderson Group for eight years 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 Newspapers 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.

Tim Harris, Group Finance Director

Tim Harris was appointed to the Board as Group Finance Director on 19 May 2014. Before joining Royal London, Tim was chief finance officer for Torus Insurance and prior to that deputy group chief financial officer at Aviva plc, where he was responsible for leading the group capital team with specific responsibility for managing capital across Aviva plc, including treasury, asset and liability management, reinsurance and Solvency II. He was also a partner in the Global Capital Markets practice at PricewaterhouseCoopers LLP. Tim is a Fellow of the Institute of Chartered Accountants and a Chartered Insurance Practitioner.

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, PricewaterhouseCoopers LLP, Aviva plc, 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.

Sally Bridgeland, Non-Executive Director

Sally Bridgeland was appointed to the Board on 14 January 2015. She is a member of the Nomination and Investment Committees. Sally spent 20 years at AON Hewitt. She was appointed chief executive officer of the BP Pension Fund in 2007, where she was responsible for strategy, regulatory and operational matters for the £19 billion fund. Sally is currently a trustee of NEST Corporation; chairs the Education Committee of the Worshipful Company of Actuaries and is a trustee of its Charitable Trust. Sally is also a member of FTSE's Policy Group.

Ian Dilks, Non-Executive Director

Ian Dilks was appointed to the Board on 14 November 2014. He is a member of the Nomination, Investment and Audit Committees. Ian spent his entire career at PricewaterhouseCoopers LLP, joining the firm (which was then Coopers & Lybrand) in 1974 and becoming a partner in 1986. He rose to become a member of the global financial services leadership team and global insurance leader. He also led their IFRS conversion businesses in the UK. In his final role at PricewaterhouseCoopers LLP he had responsibility for the regulatory affairs of the global network. He is currently Chairman of the NHS Litigation Authority.

Duncan Ferguson, Senior Independent Director

Duncan Ferguson was appointed to the Board on 1 April 2010. He is a Senior Independent Director and is the Chairman of the With-Profits Committee. He also sits on the Nomination, Board Risk and Audit Committees. He was senior risk partner of Bacon & Woodrow (then B&W Deloitte) from 1994 to 2003 and was a non-executive director of Henderson Group until December 2013. 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 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 is the Chairman of the Remuneration Committee and sits on the Audit and Nomination Committees. 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 and customer services director at AXA, and held a number of senior positions at HSBC. Tracey is currently non-executive director at RPS Group Plc and Dialight Plc, where she chairs their respective remuneration committees.

Andrew Palmer, Non-Executive Director

Andrew Palmer was appointed to the Board on 1 April 2011. Andrew is the Chairman of the Audit Committee and sits on the Remuneration, Board Risk and Nomination Committees. 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 is a non-executive director of Direct Line Insurance Group, a trustee and honorary treasurer of Cancer Research UK, and a member of the Financial Reporting Review Panel of the Financial Reporting Council.

David Weymouth, Non-Executive Director

David Weymouth was appointed to the Board on 1 July 2012. He chairs the Board Risk Committee and sits on the Audit and Nomination Committees. David retired as group chief risk officer at RSA at the end of May

2015, 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 Financial Conduct Authority's Financial Services Compensation Scheme. He has previously held a number of non-executive roles at the Department of Trade and Industry, Chordiant Software and the Charities Aid Foundation.

REGULATORY OVERVIEW

The operations of the Group are primarily in the United Kingdom but include activities in Ireland carried out through its Royal London Ireland business. 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

The Financial Services Act 2012 (the "**FS Act**") provided 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 made by the PRA and FCA under the FSMA (as amended by the FS Act) and set out in their respective handbooks, according to each regulator's scope and powers.

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 on the basis of its Fundamental Rules. 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" are 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 also obliged to discharge its general functions in a way that promotes competition.

The PRA and FCA have continued the more intrusive and direct style of regulation adopted by the FSA following the onset of the financial crisis. 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 continue to face increased supervisory intrusion and scrutiny (resulting in increased internal compliance costs and supervision fees). There continue to be 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.

The FS Act provides for additional specific powers for the PRA and the FCA, 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.

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.

Retail Distribution Review

In June 2006, the FSA launched the RDR, the results of which continue to complement the FCA's 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 and now form part of the FCA Handbook.

The rules affect insurers' and distributors' charging models. Except in relation to pure protection products, and non-advised and execution only sales, adviser firms are not permitted 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 results of the RDR affect the business models, and potentially therefore the profitability, of not only customer-facing distributor and adviser intermediary firms but also the insurance firms that provide underlying products which are distributed or recommended by those intermediary firms.

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. In recent years, conduct of sales of insurance products have come under greater scrutiny, resulting in an increase in the fines levied on firms by the FCA and compensation orders made against firms from 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

The FCA and PRA published a Memorandum of Understanding which sets out how the two regulators intend to co-operate in their supervision of insurers with policyholders who hold with-profits insurance policies. The FCA is responsible for satisfying itself that firms are behaving fairly in relation to the exercise of discretion whilst the PRA's focus is on ensuring that discretionary increases in liabilities do not adversely affect the insurer's ability to meet, and continue to meet, the PRA's standards for safety and soundness. This Memorandum of Understanding was followed by the simultaneous publication in October 2014 by the PRA and the FCA of their respective approaches to with-profits business.

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. 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. In March 2014, the FCA published a policy statement (PS 14/5) and the PRA published a supervisory statement (SS 1/14) in response to comments received during the consultation process.

The FCA policy statement confirmed 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) setting out 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. The PRA supervisory statement explained how the PRA's process for with-profits waivers will work, including how it will co-ordinate with that of the FCA and how the PRA expects the forthcoming Solvency II ring-fenced fund provisions to interact with the UK with-profits regime.

The modification option described above will be available to all mutuals as defined in the FCA Handbook, i.e. insurers which are body corporates with no share capital (except wholly owned subsidiaries with no share capital but limited by guarantee), friendly societies and industrial and provident societies.

Mutuals seeking a rule modification 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 will 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.

The Group continues to assess the possible impact to its strategy and operations in light of the changes to COBS 20 and the recent policy statement by the FCA and supervisory statement by the PRA.

As further described in "*Description of the Guarantor - ProfitShare arrangements*", the Group introduced a ProfitShare arrangement to allocate, on a discretionary basis, a proportion of the profits earned on the businesses of the Group to certain qualifying unit-linked pension and drawdown policyholders, to address the issues raised by Project Chrysalis.

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 Financial Services Compensation Scheme 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 Financial Services Compensation Scheme can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The Financial Services Compensation Scheme is funded by levies on authorised firms, including companies within the Group.

Competition and Markets Authority (the "CMA")

The CMA is the UK's 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 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

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, 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 European Commission is finalising the new Solvency II prudential framework for insurance companies, which will enter into full force on 1 January 2016. This will update, among other things, the EU Insurance Directives. The main aim of this framework is to protect policyholders through establishing prudential requirements better matched to the true risks of the business, taking into account other regulatory objectives of ensuring the financial stability of the insurance industry and stability of the markets. The new approach is based on the concept of three pillars: quantitative requirements (the amount of capital an insurer should hold), qualitative requirements on undertakings such as risk management as well as supervisory activities; and

enhanced disclosure and transparency requirements. It is also directionally consistent with Pillar II, being on an economic capital basis.

Solvency II will also contain rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of a minimum capital requirement ("**MCR**") and a higher and more risk sensitive solvency capital requirement ("**SCR**");
- what capital ("**own funds**") will be eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital may so count;
- what capital or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- to what extent a firm's capital models may be used to calculate the SCR;
- governance requirements including risk management processes;
- requirements covering (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process and (ii) matters to be published in a "Solvency and Financial Condition Report";
- rules providing for the SCR to be supplemented by a "capital add-on" in appropriate cases, the add-on to be imposed by the relevant supervisor (the PRA in the case of UK firms);
- rules on insurance products which are linked to the value of specific property or indices;
- the application of the above requirements across insurance groups, including a specific regime for insurance groups with centralised risk management and an enhanced role for the "group supervisor" of international groups, who will be required to work in conjunction with a "college of supervisors" responsible for specific solo members of the group; and
- provision for the supervision of insurance groups headed by an insurance company or insurance holding company with a head office outside the EEA.

The Solvency II Directive containing the outlines of the above regime was formally adopted in November 2009. The Solvency II Directive was amended by the Directive 2014/51/EU (the "**Omnibus II Directive**"), which was proposed in January 2011, to bring the Solvency II Directive into line with the EU's Lisbon Treaty. The European Parliament and Council reached an agreement on the Omnibus II Directive on 13 November 2013, and the agreed text has been published. The European Parliament voted to adopt the Omnibus II Directive at its plenary session on 11 March 2014, and the European Council adopted the Omnibus II Directive on 14 April 2014. The Solvency II Directive is required to be implemented by EU Member States by 1 January 2016. In the UK, several consultation papers have been published by the FCA and the PRA in relation to the transposition of the Solvency II Directive into national law and on 20 March 2015 the PRA published a policy statement containing a set of final rules to implement the directive. The Solvency II regulations were also laid before Parliament on 9 March 2015, making corresponding amendments to primary legislation. The proposed UK rules generally replicate the Level 2 rules other than in certain instances such as the need to provide for with-profit funds in the context of long-term insurance funds no longer being recognised under Solvency II. The Level 2 rules, which supplement the Solvency II directive with more detail, were adopted by the European Commission on 10 October 2014 and entered into force on 18 January 2015. There will also be consultations on draft Level 2.5 technical standards and Level 3 guidelines. National

supervisors will be required to comply with the guidelines or explain why they do not do so.

Many insurance companies and insurance groups expect to benefit from using internal models to calculate their SCR (or specific risks or major business units within the SCR). However, they require supervisory approval to do this. The process of obtaining that approval is a rigorous one involving a full review of the firm's governance arrangements and proof that the internal modelling is fully used within the firm's business.

The PRA has operated a "pre-application" process, under which the PRA undertook a review of a firm's internal model so that any shortfalls may be identified and rectified ahead of a formal application for approval under the Solvency II rules, which may now be made (after 1 April 2015). The Governor of the Bank of England reinforced in a September 2014 speech that the PRA would not hesitate to refuse approval for opaque or inadequate models, noting that poorly designed models would not be acceptable. In such a situation a firm may be required to adopt a partial internal model or to use the standard formula. In either case, the PRA may impose capital add-ons if it considers that the resultant capital requirement does not reflect the risk exposures of the firm.

Packaged Retail Investment Products

Regulation (EU) No 1286/2014 (the "**PRIIP Regulation**") lays down uniform rules on the format and content of the key information document ("**KID**") to be drawn up by PRIIP manufacturers and on the provision of the KID to retail investors in order to enable them to understand and compare the key features and risks of the relevant PRIIP.

Competent authorities will have the power to impose, in accordance with national law, the following administrative sanctions and measures:

- an order prohibiting the marketing of a PRIIP;
- an order suspending the marketing of a PRIIP;
- a public warning which indicates the person responsible for, and the nature of, the infringement;
- an order prohibiting the provision of a KID which does not comply with specific requirements, and requiring the publication of a new version of a KID; and
- administrative fines.

The PRIIP Regulation came into force on 29 December 2014 and will apply directly in all Member States from 31 December 2016. The Commission is expected to review the PRIIP Regulation by 31 December 2018.

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 legislative proposal to amend the regime established by the IMD on 3 July 2012, the Commission published the final version of IMD2 in its 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 under the IMD2. 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.

Trialogue negotiations continue between the Parliament, the Council and the Commission. Although it remains unclear as to when IMD2 will come into force, given the probability of adoption during the second half of 2015 it is likely to take effect from the second half of 2017.

Conduct of Business requirements for investment businesses and MiFID

MiFID, unlike its predecessor legislation, the Investment Services Directive, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and regulated markets. In particular, MiFID and its implementing measures make specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross border investment services.

Changes to the FSA's Conduct of Business Rules came into effect on 1 November 2007 in accordance with the requirements of MiFID. Although MiFID does not apply to insurance businesses, it has driven changes to the Conduct of Business Rules, including those that apply to insurance businesses.

In October 2011, the European Commission published proposed amendments to MiFID ("**MiFID II**"). The Directive on Markets in Financial Instruments (repealing MiFID) and the new Regulation on Markets in Financial Instruments were published in the Official Journal on 12 June 2014, and are intended to form the legal framework governing the requirements applicable to investment firms, trading venues, data reporting service providers and third-country firms providing investment services or activities in the EU. Like MiFID, MiFID II will not apply to insurance businesses, but the FCA will continue to apply most of the Conduct of Business Rules, which will implement MiFID II's requirements, to insurance-based investments and pensions in the UK. Member States have two years to transpose the new rules, which will be applicable starting January 2017.

The Mutuals' Deferred Shares Act 2015

The Mutuals' Deferred Shares Act 2015 received Royal Assent on 26 March 2015 and is intended to permit friendly societies and other mutual insurers to create a new form of Tier 1 Capital. The Act contemplates that HM Treasury will bring forward more detailed regulations (in consultation with the PRA and FCA) to define the meaning of "mutual insurer" and set the specific characteristics which such deferred shares must have. All that is known about deferred share capital is that each member will have one vote (regardless of the number of shares held) and each shareholder's claim in liquidation may be capped at the nominal value of the share. The restrictions on voting rights are intended to protect the "one member, one vote" principle and so help prevent investors from forcing the demutualisation of the issuer in order to receive free shares. Further details are expected to follow during 2015.

The Insurance Act 2015

The Insurance Act 2015 received Royal Assent on 12 February 2015 and is intended to consolidate existing insurance law to ensure that it is applied consistently to modern practice. The Act applies mainly to non-consumer contracts of insurance (although certain provisions apply to both consumer and non-consumer policies), and includes the following key provisions:

- a new duty of fair presentation effectively requires an insured to disclose all information which the

insured “ought to know”;

- in the event of breach of a contractual term by an insured, the insurer remains liable for the periods prior to such breach and after such breach has been remedied;
- clarification of insurers’ civil remedies in respect of fraudulent claims; and
- the removal of avoidance of an insurance contract as a remedy for breach of the duty of utmost good faith, both at common law and under statute and for both consumer and non-consumer contracts.

The reforms are due to come into force in August 2016.

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. It also relates only to the position of persons who hold their Notes and interest thereon as investments (regardless of whether the Noteholder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable.) 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 income tax.

Interest on the Notes may also be paid by the Issuer without withholding or deduction on account of UK income tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer 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, unless another relief applies under domestic law, 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).

Information relating to securities and accounts may be required to be provided to HMRC 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 Issuer, 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.

No stamp duty or stamp duty reserve tax should be payable on the issue of the Notes or on a transfer of the Notes.

EU Information Reporting and Withholding

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 secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria 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 it elects otherwise.

The Council of the European Union has adopted the Amending Savings Directive which would, if implemented, amend and broaden the scope of the requirements of the EU Savings Directive described above, including by expanding the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and by expanding the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly

benefit an individual resident in an EU Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The Council of the European Union has also adopted a Directive (the "**Amending Cooperation Directive**") amending Council Directive 2011/16/EU on administrative cooperation in the field of taxation so as to introduce an extended automatic exchange of information regime in accordance with the Global Standard released by the OECD Council in July 2014. The Amending Cooperation Directive requires EU Member States to adopt national legislation necessary to comply with it by 31 December 2015, which legislation must apply from 1 January 2016 (1 January 2017 in the case of Austria). The Amending Cooperation Directive is generally broader in scope than the EU Savings Directive, although it does not impose withholding taxes, and provides that to the extent there is overlap of scope, the Amending Cooperation Directive prevails. The European Commission has therefore published a proposal for a Council Directive repealing the EU Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also indicates that, if it is adopted, Member States will not be required to implement the Amending Savings Directive. Information reporting and exchange will however still be required under Council Directive 2011/16/EU (as amended).

If a payment were to be made which is subject to a withholding requirement pursuant to the EU Savings Directive 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 the EU Savings Directive, none of the Issuer, the Guarantor, any Paying Agent or 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. Furthermore, if the Amending Savings Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

FATCA Withholding

Certain provisions of U.S. law, commonly know as FATCA, impose reporting requirements and a withholding tax of 30 per cent. on, among other things, certain payments by foreign financial institutions ("foreign passthru payments") to persons who fail to meet certain certification or reporting requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to intergovernmental agreements to implement FATCA with the United States ("IGAs"), which modify the way in which FATCA applies in their jurisdictions.

In order to avoid becoming subject to withholding tax under FATCA, non-U.S. financial institutions must submit to certain reporting requirements (generally pursuant to an agreement with the IRS or under local law implementing an IGA) or otherwise be exempt from the requirements of FATCA. Specifically, non-U.S. financial institutions that are not exempt from the requirements of FATCA may be required to identify and report to the government of the United States or another relevant jurisdiction certain information regarding "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, a financial institution may be required to 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. Foreign financial institutions in a jurisdiction, such as the United Kingdom, that has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA ("**IGA Legislation**")) from payments that they make on securities such as the Notes. However, the full impact of IGAs and IGA Legislation on reporting and withholding responsibilities under FATCA is unclear at this time and no assurance can be given that withholding under FATCA, IGAs or IGA Legislation will not become relevant with respect to payments made on or with respect to the Notes in the future.

Withholding under FATCA is expected to begin on 1 January 2019 (at the earliest) in respect of "foreign passthru payments". FATCA withholding in respect of foreign passthru payments is not required for "obligations" that are not treated as equity for U.S. federal income tax purposes unless such obligations are issued or materially modified after the date that is six months after the date on which the final regulations defining "foreign passthru payments" are filed with the Federal Register.

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 between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA 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.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016. However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc and Merrill Lynch International (the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 11 November 2015 (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 100.00 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 agreed to indemnify the Joint Lead Managers against certain liabilities which may arise in connection with the issue of the Notes and 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 or before 16 November 2015, 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 27 October 2015. The giving of the Guarantee in respect of the Notes was authorised by a resolution of the Board of Directors of the Guarantor passed on 24 November 2011, a resolution of the Board Administration Committee of the Board of Directors of the Guarantor passed on 23 October 2015 and a resolution of a committee of the Board of Directors of the Guarantor passed on 4 November 2015.

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 30 June 2015, being its date of incorporation.

4. There has been no significant change in the financial or trading position of the Guarantor or of the Group since 30 June 2015. There has been no material adverse change in the financial position or prospects of the Guarantor or of the Group since 31 December 2014.

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 131973853. The International Securities Identification Number (ISIN) for the Notes is XS1319738537.

   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 yield to maturity on the Notes will be 6.125 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 2013 and 2014; and

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

    This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

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 2013 and 31 December 2014.

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.

"**Amending Savings Directive**"	means the directive adopted by the Council of the European Union which would, if implemented, amend and broaden the scope of the EU Savings Directive.
"**Alternative Clearing System**"	means any other clearing system than Euroclear or Clearstream, Luxembourg.
"**Authorities**"	means, collectively, HM Treasury, the Bank of England (including the PRA) and the Financial Conduct Authority.
"**CIS**"	means The Co-operative Insurance Society Limited.
"**Clearstream, Luxembourg**"	means Clearstream Banking S.A.
"**Closed Sub-Funds**"	means the SL Closed Fund, the PLAL With-Profits Sub-Fund, the Royal Liver Sub-Fund and the Royal London (CIS) Sub-Fund.
"**COBS**"	means the conduct of business sourcebook.
"**Condition**"	means, in respect of a numbered Condition, the relevant condition of the Notes set out under the "*Terms and Conditions of the Notes*".
"**CRA Regulation**"	means Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.
"**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.
"**EU Insurance Directives**"	means the European Union Life and Non-Life Insurance Directives.
"**Euroclear**"	means Euroclear Bank SA/NV.
"**EU Savings Directive**"	means the EC Council Directive 2003/48/EC on the taxation of savings income.
"**FATCA**"	means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and US Treasury regulations promulgated thereunder.
"**FATCA withholding**"	means any withholding required under FATCA or an IGA (or any law implementing an IGA or agreement with the IRS relating to FATCA).
"**FCA**"	means the Financial Conduct Authority (or any successor

	authority).
"**FCA Handbook**"	means the book of rules and guidance maintained by the FCA.
"**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.
"**FOS**"	means the Financial Ombudsman Service.
"**FSA**" or "**Financial Services Authority**"	means the Financial Services Authority prior to 1 April 2013.
"**FSMA**"	means the Financial Services and Markets Act 2000.
"**Global Certificate**"	means a global certificate in registered form registered in the name of a nominee for HSBC Bank plc as common depositary for Euroclear and Clearstream, Luxembourg on or about the Issue Date.
"**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.
"**ICSDs**"	means Euroclear and Clearstream, Luxembourg.
"**ICOBS**"	means the insurance conduct of business sourcebook.
"**IGA**"	means an intergovernmental agreement between the United States and another jurisdiction relating to FATCA.
"**IFAs**"	means independent financial advisers.
"**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).
"**IRS**"	means the Inland Revenue Service.
"**Issuer**"	means RL Finance Bonds No. 3 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.
"**Official List**"	means the Official List of the UK Listing Authority.
"**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.
"**PRIIPs**"	means packaged retail and insurance based investment products.
"**PVNBP**"	means present value of new business premiums.
"**Prospectus**"	means this Prospectus dated 11 November 2015.

"**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.
"**Regulation S**"	means Regulation S under the Securities Act.
"**RLAM**"	means Royal London Asset Management Limited.
"**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).
"**Subsidiary**"	has the meaning given to that term under Section 1159 of the Companies Act.
"**S&P**"	means Standard & Poor's Credit Market Services Europe Limited or, where the context requires, another ratings provider within the Standard & Poor's group.
"**U.S.**"	means the United States.
"**UK-US IGA**"	means the intergovernmental agreement entered into between the UK and the U.S. to improve tax compliance, dated 12 September 2012.
"**United Kingdom**" or "**UK**"	the United Kingdom of Great Britain and Northern Ireland.
"**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.

REGISTERED OFFICE OF THE ISSUER AND THE GUARANTOR

RL Finance Bonds No. 3 plc
and
The Royal London Mutual Insurance Society Limited
55 Gracechurch Street
London EC3V 0RL
United Kingdom

AUDITORS OF THE ISSUER AND THE GUARANTOR

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH
United Kingdom

TRUSTEE

HSBC Corporate Trustee Company (UK) Limited
8 Canada Square
London E14 5HQ
United Kingdom

REGISTRAR, PRINCIPAL PAYING AGENT AND TRANSFER AGENT

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

JOINT LEAD MANAGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Merrill Lynch International
2 King Edward Street
London, EC1A 1HQ
United Kingdom

LEGAL ADVISERS

To the Issuer

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Joint Lead Managers and the Trustee

Simmons & Simmons LLP
CityPoint, One Ropemaker Street
London EC2Y 9SS
United Kingdom