PROSPECTUS DATED 3 OCTOBER 2019

RL Finance Bonds No. 4 plc

(incorporated with limited liability in England and Wales with registered number 12187449)

£600,000,000 4.875 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049

guaranteed on a subordinated basis by

The Royal London Mutual Insurance Society Limited

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

Issue Price: 97.976 per cent.

The £600,000,000 4.875 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 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. 4 plc (the "**Issuer**") on or about 7 October 2019 (the "**Issue Date**"). The Notes will bear interest from (and including) the Issue Date to (but excluding) 7 October 2039 (the "**First Reset Date**") at the rate of 4.875 per cent. per annum and thereafter at a rate of interest which will be reset on the First Reset Date and on each fifth anniversary of the First Reset Date. Interest will be payable on the Notes annually in arrear on 7 October in each year (each, an "**Interest Payment Date**"), commencing on 7 October 2020, provided that either the Issuer or the Guarantor may defer payments of interest on any Interest Payment Date for any reason, and interest will be mandatorily deferred (i) on any Regulatory Deficiency Interest Deferral Date (as defined in the terms and conditions of the Notes (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 7 October 2049 (the "**Maturity Date**") and may be redeemed at the option of the Issuer on any day falling in the period commencing on (and including) 7 April 2039 and ending on (and including) the First Reset Date, or on any Interest Payment Date after the First Reset Date, or at any time (i) following the occurrence of a Capital Disqualification Event (as defined in the Conditions) or the occurrence of (or if the Issuer satisfies the Trustee (as defined in the Conditions) that there will occur within six months) a Ratings Methodology Event (as defined in the Conditions) or (ii) in the event of certain changes in the tax treatment applicable to the Notes, provided that redemption of the Notes on the Maturity Date or any other date set for redemption of the Notes shall be deferred if (a) a Regulatory Deficiency Redemption Deferral Event (as defined in the Conditions) has occurred and is continuing on such date, or would occur if the Notes were to be redeemed, or (b) the Notes could not be redeemed in compliance with the Solvency Condition.

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

Applications have been made to the Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") for the Notes to be admitted to the official list of the FCA (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 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**").

This Prospectus has been approved by the FCA as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer or the Guarantor or the quality of the Notes that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Notes.

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 upon issue initially be represented by a global certificate in registered form (the "**Global Certificate**") registered in the name of a nominee for the 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 and the Guarantee have not been, and will not be, registered under the United States Securities Act 1933, as amended (the "**Securities Act**"). The Notes are being offered outside the United States by the Joint Lead Managers (as defined in "*Subscription and Sale*" below) in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered or sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. The Notes are subject to U.S. tax law requirements.

The Notes are expected to be rated BBB+ by S&P Global Ratings 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 ("**EU**") and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

Joint Structuring Advisors and Joint Lead Managers

BNP PARIBAS **HSBC**

IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**").

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Guarantor, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

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.

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.

OFFER RESTRICTIONS

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, the United Kingdom, the European Economic Area, Hong Kong, Singapore and Switzerland, see "*Subscription and Sale*".

MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties ("**ECPs**") and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or both) of: (i) a retail client as defined in point (11) of MiFID II and (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key

information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, BNP PARIBAS AS STABILISING MANAGER (THE "**STABILISATION MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION 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, STABILISATION MAY NOT NECESSARILY OCCUR. 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 CEASE 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 STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Unless otherwise specified or the context requires, 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. Certain terms used throughout this Prospectus are defined under the section headed "*Definitions*".

FORWARD-LOOKING STATEMENTS

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "anticipates", "estimates", "expects", "intends", "plans", "aims", "potential", "projects", "may", "will", "would", "could", "should", "considered", "likely", "estimate", or in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the intentions of the Issuer and/or the Guarantor, beliefs or current expectations concerning, among other things, the business, results of operations, financial position and/or prospects of the Issuer and/or the Guarantor.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of the Group, and the development of the markets and industries in which members of the Group operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements. See "*Risk Factors*" below.

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 Regulation 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 2018 and 2017 (https://www.royallondon.com/siteassets/site-docs/about-us/corporate-goverance/annual-report-and-accounts-2018.pdf and https://www.royallondon.com/siteassets/site-docs/about-us/annual-reports/rl_ara_2017_250618.pdf) 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;

(ii) the unaudited consolidated half year results 2019 of the Guarantor for the six months ended 30 June 2019 (https://www.royallondon.com/siteassets/site-docs/about-us/corporate-goverance/royal-london-2019-interim-financial-results.pdf) published by the Regulatory News Service operated by the London Stock Exchange ("**RNS**") on 12 August 2019; and

(iii) the 2018 Solvency and Financial Condition Report of the Guarantor (https://www.royallondon.com/siteassets/site-docs/about-us/corporate-goverance/regulatory-returns-and-publications/2018-rlmis-solo-sfcr.pdf), together with the audit report thereon, which has been previously published.

Such documents (the "**Documents Incorporated by Reference**") 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. Any documents themselves incorporated by reference in the Documents Incorporated by Reference in this Prospectus shall not form part of this Prospectus.

Copies of the Documents Incorporated by Reference in this Prospectus may be obtained (without charge) from the websites listed above.

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

The information on www.royallondon.com does not form part of this Prospectus, except where that information has been incorporated by reference into this Prospectus.

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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 Conditions as set out under "Terms and Conditions of the Notes".

Issuer	RL Finance Bonds No. 4 plc.
Legal Entity Identifier of the Issuer	21380094SBEIOBDS8O41
Guarantor	The Royal London Mutual Insurance Society Limited, a company limited by guarantee.
Legal Entity Identifier of the Guarantor	G8FFYFZ5TIO54GXBFZ14
Website of the Guarantor	www.royallondon.com
Joint Structuring Advisors and Joint Lead Managers	BNP Paribas and HSBC Bank plc.
Trustee	HSBC Corporate Trustee Company (UK) Ltd.
Principal Paying Agent, Registrar and Transfer Agent	HSBC Bank plc.
Issue	£600,000,000 4.875 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049.
Issue Date	7 October 2019.
Issue Price	97.976 per cent.
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 excess 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 (including the obligation to pay such aforementioned damages, if any) pursuant to, and in accordance with, Condition 4(*c*) and shall be deemed 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 Guarantor Winding-Up as described in Condition 4(*b*).
Solvency Condition	In addition, other than in circumstances where a Guarantor Winding-Up has occurred or is occurring, all payments under or arising under the Notes or Trust Deed shall be conditional upon the Guarantor being solvent (as that term is described in Condition 3(*c*)) at the time for payment by the Issuer, or as appropriate, the Guarantor, and no amount shall be payable under or arising from the Notes or the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Guarantor could make such payment and still be solvent immediately thereafter.
Interest	The Notes will bear interest from (and including) the Issue Date to (but excluding) the First Reset Date at the rate of 4.875 per cent. per annum payable (subject as provided under "*Deferral of interest*" below) annually in arrear on 7 October in each year up to (and including) the First Reset Date and thereafter at the applicable Reset Rate (as defined in, and calculated in accordance with, the Conditions) as reset from (and including) the First Reset Date on each fifth anniversary of the First Reset Date, payable (subject as provided under "*Deferral of Interest*" below) annually in arrear on 7 October in each year.
Deferral of interest	Either the Issuer or the Guarantor may, in respect of any Interest Payment Date, elect to defer payment of interest on the Notes (in whole or in part) for any reason.

	Payment of interest on the Notes and any Guaranteed Amounts with respect to interest are required to be deferred (i) on each Regulatory Deficiency Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing) or (ii) if such payment could not be made in compliance with the Solvency Condition.
Arrears of Interest	Any interest which is (A) optionally deferred in accordance with Condition 6(*a*) or (B) required to be deferred by the Issuer or the Guarantor in accordance with Condition 3(*c*) or 6(*b*) will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by the Issuer as provided in Condition 6(e).
Redemption at maturity	Unless previously redeemed or purchased and cancelled, the Issuer will (subject as provided under "*Deferral of redemption*" below) redeem the Notes on 7 October 2049.
Early redemption	The Issuer may, subject as provided under "*Deferral of redemption*" below, upon giving not less than 15 nor more than 30 days' notice to Noteholders, redeem all (but not some only) of the Notes: (i) on any day falling in the period commencing on (and including) 7 April 2039 and ending on (and including) the First Reset Date; or (ii) on any Interest Payment Date after the First Reset Date, in each case at their principal amount together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption. The Notes are not redeemable at the option of any Noteholder.
Redemption, substitution or variation for taxation reasons	If: (a) as a result of certain changes in (or proposed changes in), or amendments to (or proposed amendments to), laws or regulations of a Relevant Jurisdiction or the application or official or generally published interpretation thereof, on the next Interest Payment Date, either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 10; or (ii) the Guarantor in making payment of Guaranteed Amounts would be required to pay such additional amounts; or (iii) the payment of interest (or any Guaranteed Amounts in respect of interest) would be treated as a "distribution" for United Kingdom corporation tax purposes or the Issuer or the Guarantor would otherwise not be able to claim a deduction from taxable profits for United Kingdom corporation tax purposes for interest (or any Guaranteed Amounts in respect of interest) payable on the Notes or for a material part of such interest (or Guaranteed Amounts in respect of interest); or (iv) where (A) in respect of the payment of interest (or any Guaranteed Amounts in respect of interest), the Issuer or the Guarantor, as the case may be, incurs a loss or a non-trading loan relationship deficit for United Kingdom corporation tax purposes

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

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

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

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

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

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

Redemption, substitution or variation due to a Capital Disqualification Event or a Ratings Methodology Event

If a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or the Issuer or the Guarantor satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable ratings methodology, a Ratings Methodology Event will occur within a period of six months, the Issuer may upon notice to, *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, (A) in the case of a substitution or variation in connection with a Capital Disqualification Event, Qualifying Dated Tier 2 Securities or (B) in the case of a substitution or variation in connection with a Ratings Methodology Event, Rating Agency Compliant Securities,

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

Deferral of redemption	No Notes shall be redeemed by the Issuer on the Maturity Date or on any other date set for redemption pursuant to Conditions 8(*d*), 8(*e*) or 8(*f*) and no Guaranteed Amounts in respect of principal shall 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 on such date, (ii) such redemption could not be made in compliance with the Solvency Condition or (iii) the PRA does not consent to the redemption or the PRA objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date. 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	Any redemption or purchase of the Notes and any substitution or variation of the terms of the Notes is subject to the Issuer or, as the case may be, the Guarantor having complied with the Regulatory Clearance Condition. Prior to publishing any notice (a) that the Issuer intends to redeem the Notes 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 the 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 before the fifth anniversary of the Reference Date may only be made (A) 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 (or, alternatively, in the case of a purchase of Notes only, by means of an exchange of such Notes for a new issuance of capital of at least the same quality as the Notes) and that such redemption or purchase is otherwise permitted under the Relevant Rules; or (B) in the case of any redemption prior to the fifth anniversary of the Reference Date pursuant to Condition 8(*e*) or due to a Capital Disqualification Event pursuant to Condition 8(*f*), on condition that such redemption or purchase is permitted under the Relevant Rules and that the PRA is satisfied that the Solvency Capital Requirement applicable to the Guarantor, the Insurance Group and each member of the Insurance Group will be exceeded by an appropriate margin immediately after such redemption (taking into account the solvency position of the Guarantor and all or such relevant part of the Insurance Group, including by reference to the Guarantor's or the Insurance Group's medium-term capital management plan); and (I) in the case of redemption pursuant to Condition 8(*e*), on condition that the Issuer has demonstrated to the satisfaction of the PRA that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Reference Date; or (II) in the case of redemption pursuant to Condition 8(*f*) following the occurrence of a Capital Disqualification

	Event, on condition that the PRA considers that the relevant change in the regulatory classification of the Notes is sufficiently certain and that the Issuer has demonstrated to the satisfaction of the PRA that such change was not reasonably foreseeable as at the Reference Date, in each case subject to the prevailing Relevant Rules as more particularly described in Condition 8(*h*)(iii).
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 of interest (including Arrears of Interest and payments of Guaranteed Amounts in respect of interest and Arrears of Interest), but not upon payments of principal or any other amount (or Guaranteed Amounts in respect of principal or any other amounts), made by or on behalf of the Issuer in respect of the Notes or by or on behalf of the Guarantor under the Guarantee, will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions as set out in Condition 10.
Restrictions following deferral of interest or principal	During any period beginning on the earlier of (i) the date on which the Issuer or the Guarantor gives notice in accordance with the Conditions or otherwise publicly announces that it intends to defer any forthcoming payment of interest or principal and (ii) the date on which the Issuer or Guarantor becomes obliged to give notice of the deferral of any payments in respect of interest or principal under the Notes and, in either case, 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) subject to certain limited exceptions, none of the Guarantor, the Board of Directors of the Guarantor (the "**Board**") 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) 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 arrears of interest and 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 (including any Arrears of 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 prove in winding-up proceedings in respect of the Issuer is limited to proving and/or claiming in an Issuer Winding-Up in circumstances where a Guarantor Winding-Up has also occurred or is occurring. Neither the Noteholders nor the Trustee on their behalf have the right to institute winding-up procedures of the Issuer.* *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 (including any damages awarded against the Issuer for breach of any of its obligations thereunder) as if references in the Notes and the Trust Deed to "the Issuer" were to the Guarantor or the relevant Subsidiary (as the case may be) but provided that the claims of the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders against the Guarantor in respect of all payment obligations under the Notes and the Trust Deed shall rank pari passu with the Guarantee.* *The right to institute winding-up proceedings in respect of the Guarantor is limited to circumstances where a payment under the Guarantee has become due and has not been paid by the Guarantor. For the avoidance of doubt, unless a Guarantor Winding-Up has occurred, no amount shall be due from the Guarantor in those circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred in accordance with Condition 6(a), 6(b) or 8(b).*
Substitution of obligor and transfer of business	The Conditions permit the Trustee to agree to the substitution in place of the Issuer or the Guarantor of a Substituted Obligor in the circumstances described in Condition 15 without the consent of Noteholders. In addition, the Guarantor may, without any prior approval from the Noteholders or the Trustee, transfer 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 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, Written Resolutions and Electronic Consents	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. Written resolutions executed by or on behalf of the holders of not less than 75 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, and resolutions passed by way of Electronic Consents (as defined in the Conditions) given by holders of not less than 75 per cent. in principal amount of the Notes, shall also take effect as Extraordinary Resolutions. An Extraordinary Resolution passed at any duly convened and held meeting of the Noteholders or by way of a written resolution or electronic consent will be binding on all Noteholders, whether or not they are present at the meeting, execute the written resolution or give any electronic consent, as the case may be.
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	European Economic Area, Hong Kong, Singapore, Switzerland, the United States and the United Kingdom.
Compliance information	MiFID II product governance - Manufacturer target market is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document has been prepared as the Notes will not be made available to retail investors in the European Economic Area.
Use and estimated net amount of proceeds	The estimated net proceeds of the issue of the Notes, after deduction of commissions, fees and estimated expenses, will be £585,096,000 and 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	XS2061962465
Common Code	206196246
CFI/FISN	See the website of the Association of National Numbering Agencies ("**ANNA**") or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

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. 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 or the Guarantor 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 the Documents Incorporated by Reference) and reach their own views prior to making any investment decision. The risk factors set out below are the Group's current assessment of risks but over the term of the Notes their significance may change or new risks may emerge.

(A) RISKS RELATING TO THE GROUP

ECONOMIC RISKS

1 The Group's business is subject to risks arising from economic conditions in the United Kingdom ("UK") and other markets in which its policyholders' investments are invested. Adverse developments could cause the Group's earnings and profitability to decline.

1.1 The Group has investment exposure to a number of European countries and is exposed to business and economic threats, including contagion impacts arising from the UK vote to leave the EU, known as "Brexit", which could impact its capital position.

The Group's business is subject to risks arising from general and sector-specific economic conditions in the markets in which it operates or invests, particularly the UK, being where the Group's earnings are and will be predominantly generated and in which its and its policyholders' investments are predominantly invested.

Adverse economic conditions arising from Brexit could impact the level of policyholder income, which could in turn lead to adverse levels of persistency, being the extent to which policies remain in force and are not for any reason lapsed, made paid-up, surrendered or transferred prior to maturity or expiry, against those assumed by the Group. Adverse economic conditions could also impact the fair value of the financial instruments held by the Group. A deterioration in economic conditions or a recession would impact new and existing business. The Group invests in the UK and directly and indirectly in other countries inside and outside the EU.

The Group's business comprises investment and non-investment insurance policies. For investment policies, direct investment risks are often borne, in whole or in part, by policyholders in accordance with the terms of the relevant policies. However, a decrease in the value of investments may reduce the fees and charges payable to the Group and fluctuations in investment markets and the general rate of inflation will, directly and indirectly, affect the financial position of the Group including its financial performance, reserving and regulatory capital requirements.

For non-investment insurance policies, the Group bears risk in respect of products where the benefits are not aligned with the investment performance of the assets which support them. Substantial decreases in the value of investments held against insurance policies could lead to available capital within the Group being used to meet obligations to policyholders, as well as reserving and regulatory capital requirements. This could restrict the ability of the Group to release capital to service debt, including the Notes.

The exact impact of market risks faced by the Group is uncertain and difficult to predict and difficult to respond to, in particular, given (i) the unpredictable consequences of Brexit; (ii) difficulties in predicting the rate at which any economic deterioration may occur in connection with Brexit and over what duration; and (iii) the fact that many of the related risks to the business are totally, or partly, outside the control of the Group. See also risk factor 3.3 below.

1.2 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.

The Guarantor is obliged to select the investment manager of policyholder assets, with the majority of policyholder assets managed by Royal London Asset Management Limited ("**RLAM**"). The Group Investment Committee maintains ongoing oversight and approval of, where appropriate, the appointment and removal of asset managers and other third parties, including custodians, involved in investment and new fund launches.

The financial investments portfolio is well diversified across a number of financial instruments, with the majority invested in debt and fixed income and equity instruments. At 31 December 2018 these assets were invested as follows: 48 per cent. in debt and fixed income; 31 per cent. in equity; 10 per cent. in unit trust and other pooled investments; 4 per cent. in derivative assets; and 7 per cent. in other investments.

The value of investment assets fluctuates, which can impact the capital levels supporting the Group's business. A downturn in the equity, debt and 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 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 debt and fixed income, equity or other investment markets will directly or indirectly affect the reported financial results and the capital position of the Group.

Downturns and volatility in the equity, real-estate and bond 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 therefore the revenue of the business would 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 operations, financial results and/or financial condition of the Group. The Group is subject to property price risk mainly due to holdings of investment properties in various funds.

Downturns in equity markets may also have a material adverse effect on the Group's regulatory capital surplus as measured under Solvency II by the PRA in the UK and by the Central Bank of Ireland ("**CBI**")

in Ireland. The Group offers certain long-term insurance products with guarantees. The results of the Group may be negatively impacted by volatile or declining investment markets due to the cost of guarantees provided to policyholders. 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. If the Royal London Open Fund supported the Closed Sub-Funds in this manner, the regulatory surplus to cover the Solvency Capital Requirement ("**SCR**") of each of the Guarantor and the Group might be expected to decrease and, if so, heighten the risk of deferral of payments of principal and interest on the Notes. The Group's Capital Management Framework includes a number of possible management actions and responses against this risk.

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 income investments, reducing the market values of fixed income securities in the Group's investment portfolio and may cause policyholders to surrender their contracts.

The Group, as with other insurance businesses, has been operating in a period of sustained low interest rates which is expected to continue in the short term. As well as sustained periods of low interest rates, the Group is also exposed to interest rate and credit spread fluctuations which can have a material adverse effect on the operations, financial results and/or financial condition of the Group.

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).

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 the 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.

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.

Further, while the Group seeks to maintain an investment portfolio with diversified maturities, 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 operations, financial results and/or 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 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, the Bank of England, and European Central Bank, are wound down or stopped. Surrenders of policies 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 financial results.

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

The Group is also exposed to similar risks in relation to insurance counterparties in respect of certain Group risks covered by insurance, such as professional indemnity insurance. Any failure of the Group to put in place adequate insurance, or of the third party insurer to meet its financial obligations under such insurance, could materially and adversely affect the Group's operations, financial results and/or financial condition.

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 and/or 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). Such third party service providers give rise to a risk to the Group through external factors outside of its control, such as economic, financial or political disruption.

The Group uses custodian banks to hold assets for safekeeping. The largest custodian is HSBC Global Custody Nominee (UK) Limited. Any failure by the custodians to administer the assets of the Group properly could lead to losses in the value or holding of assets by the Group.

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 Group's operations.

2.4 Sustained underperformance across a range of any of the funds managed by RLAM could adversely affect financial results of the Group.

Any sustained period of actual or perceived underperformance across a range of any of RLAM funds, relative to peers, benchmarks or internal targets, could have a material adverse effect on the Group's business, reputation and brand, sales, financial results, financial condition and growth prospects.

Were RLAM to fail to provide satisfactory investment returns across a range of funds, customers and clients may decide to reduce their investments managed by RLAM or withdraw them altogether. Any investment underperformance could, therefore, have a material adverse effect on the Group's business, reputation and brand, sales, financial results, financial condition and growth prospects.

2.5 The Group enters into a significant number of 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'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 operations, financial results and/or financial condition.

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 operations, financial results and/or financial condition 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.

2.6 Counterparty default risk may have an adverse impact on the Group's operations, financial results and/or financial condition.

The Group is exposed to the risk of failure or default of one or more of its counterparties who may not perform 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, independent financial advisers as a material distribution channel of the Group's products, customers and trading counterparties. 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. See also risk factors 2.3, 2.4 and 2.5 above.

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 operations, financial results and/or financial condition 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 operations, financial results and/or financial condition, 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 too low 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 and subordinated debt instruments and derivative transactions. 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. The stock-lending activity is performed by the custodian appointed by the Group, HSBC Global Custody Nominee (UK) Limited, with a guarantee provided by the custodian to accept the credit risk of any counterparty to which the Group seeks to lend securities.

Any losses or impairments suffered could materially and adversely affect the Group's operations, financial results and/or financial condition.

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, unlisted equities and unlisted debt securities, where the inputs used for their valuation are not directly observable in the market. There is a higher level of uncertainty with these assets 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. Such forced sales, in aggregate, could, therefore, have a material adverse effect on the Group's business, reputation and brand, sales, financial results, financial condition and growth prospects.

2.8 Fluctuations in currency exchange rates may adversely affect the Group's operations, financial results and/or financial condition.

The Group is exposed to translation and transaction risk associated with foreign currencies. In particular, the Group provides certain products in Ireland through Royal London Insurance Designated Activity Company ("**RLI DAC**") and is therefore exposed to foreign currency exchange risk arising from fluctuations in the sterling: euro exchange rate. The Group's premium income 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 offset the impact of the foreign currency exchange rate fluctuation effectively. Any adverse foreign currency exchange fluctuation may also have an adverse effect on the Group's regulatory capital surplus under Solvency II required by the PRA in the UK and the CBI in Ireland.

2.9 Price and earnings inflation may adversely affect the Group's operations, financial results and/or financial condition.

Inflation is a continuing risk for the Group, including in respect of the Group's defined benefit pension schemes in that (subject to statutory caps) the schemes are obliged by their scheme rules to increase pensions payments and entitlements in line with inflation. The Group's UK pension schemes are exposed to both consumer price inflation ("**CPI**") and retail price inflation ("**RPI**") inflation but hedge over 90% of this risk (on the Group's International Accounting Standard 19 ("**IAS 19**") basis) using RPI swaps. The Group's Irish scheme is exposed to Irish consumer price inflation ("**Irish CPI**") and UK retail price inflation ("**UK RPI**") (due to a historic link to the UK Liver Pension Scheme). The Group's Irish scheme hedges approximately 85% of Irish CPI risk (on the Group's IAS 19 basis) but does not currently hedge any of its UK RPI exposure. The use of RPI swaps to hedge CPI exposure and the unhedged risks in the UK and Irish schemes means there could be an increase in the Group's pension scheme liabilities without there being corresponding and proportionate growth in the assets of the Group, leading to a net increase in the Group's pension scheme liabilities. The Group's maintenance costs are also subject to inflation, with around 50% of these being salary related and exposed to earnings inflation. If management fails to control such costs within the inflationary environment this could increase the Group's costs per policy, or unit costs, and hence potentially have a negative impact on the Group's profitability, financial results and/or financial condition. The Group is also subject to inflation risk through its holdings of fixed interest and other investments (as these will typically reduce in yield if inflationary pressures cause market interest rates to rise).

2.10 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 operations, financial results and/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 operations, financial results and/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.

3.1 The Group's business is subject to extensive and ongoing regulatory supervision and to potential FCA, PRA and CBI intervention on industry-wide issues 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 the UK) and the CBI (in Ireland). See the section entitled "*Regulatory Overview*" for more details.

The FCA's ambition is to deliver improved customer experience and service delivery, together with more rapid and certain distribution of the estates of With-Profits Sub-Funds. In particular, delivering fair outcomes for customers has been an increasing focus of the FCA's activity in recent years and has led to a number of industry-wide thematic reviews (such as the review of non-advised annuity sales practices), 'past business' reviews and individual enforcement actions against industry participants. In response to a perceived divergence between the sophistication of financial products and financial literacy of customers, the FCA has also increased its emphasis on the need for consumer protection: for example, in July 2019, the FCA launched a consultation on the fair treatment of vulnerable customers. In particular, the FCA has stated that its approach to fair treatment of customers 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 deliver fair outcomes for customers 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.

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, interacts with customers and manages its capital.

The Group's programme of activity currently underway incorporates its ambition to deliver products which are more modern, flexible and suited to customers' needs. In achieving these objectives, the Group expects to enhance its operating model for servicing legacy products, reducing systems and operational risk in the legacy estate, standardising and streamlining business processes and improving value for money through greater operational efficiency. The programme elements include with-profits Fund Consolidation, Product Enhancement, and System Consolidation & Process Simplification.

A determination that the Group has failed to comply with applicable regulation, or has not undertaken corrective action as required by a regulator, could have a negative impact on its operations, financial results and/or financial condition or on the Group's relations with current and potential customers and intermediaries. 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 operations, financial results and/or financial condition and divert management's attention from the day-to-day management of the business.

3.2 The Group operates in a regulated market and is exposed to changes to regulation, policies and interpretations.

Since 1 January 2016, the Guarantor has been required to carry out regulatory capital calculations under Solvency II. The Guarantor became a Group for Solvency II reporting purposes on 1 January 2019 following regulatory approval from the CBI of its Irish subsidiary RLI DAC. RLI DAC has been required to carry out regulatory capital calculations under Solvency II since 1 January 2019. The regulatory capital calculations are described in "*Description of the Guarantor – Solvency II Surplus*" below.

The supervision of the Guarantor solo and Group regulatory capital requirement is carried out by the PRA. The supervision of RLI DAC solo regulatory capital requirement is carried out by the CBI. Any existing regulations may be amended in the future or new regulations may be implemented. See the "Regulatory Overview" section. In particular, the regulatory capital and/or reserving position applicable to the Group may be modified by matters which are in the PRA's discretion and which the Guarantor could lose the benefit of: (i) the Solvency II Internal Model; (ii) the Volatility Adjustment; and (iii) the application of the transitional measures on technical provisions (the "**Transitional Measures on Technical Provisions**"); as described below.

- Solvency II Internal Model: Solvency II requires that a separate "solo" SCR is determined for each authorised insurance company. In addition, Solvency II applies a group SCR, which takes into account the regulatory capital requirement of the Group, as well as certain features, strengths and weaknesses of the wider Group. The PRA approved a group and solo application to use a partial internal model (the "**Solvency II Internal Model**") for the calculation of the consolidated group SCR as well as for the Guarantor as a solo entity on 20 September 2019. The Guarantor needs to include the risks relating to RLI DAC in its SCR calculation (both solo and group) and, given that it does not use its internal model to do this, the internal model is considered to be 'partial' (rather than 'full').

- Solvency II Volatility Adjustment: the Guarantor applies a 'volatility adjustment' to its with-profits and non-profit annuity in payment business and on Guaranteed Annuity Options ("**GAOs**") on its unit-linked business (the "**Volatility Adjustment**"). The purpose of the Volatility Adjustment is to prevent the requirement for market-consistent valuation of assets and liabilities under Solvency II from dis-incentivising insurers from investing in assets that it would otherwise be appropriate for the insurer to hold, taking into account the nature and duration of their insurance liabilities. The Volatility Adjustment aims to mitigate 'artificial' balance sheet volatility caused by short-term market volatility in the value of assets by allowing insurers to reflect movements to those asset prices within the market-consistent valuation of the corresponding liabilities. The Guarantor has received permission from the PRA to apply the Volatility Adjustment, which reduces the reserving and capital requirements associated with the liabilities. The level of the adjustment is prescribed by the European Insurance and Occupational Pensions Authority ("**EIOPA**") and may change in future.

- Transitional Measures on Technical Provisions: The implementation of Solvency II increased the regulatory capital requirements and reserving requirements on the Guarantor. However, some of these increases have been partly mitigated by the introduction of Transitional Measures on Technical Provisions, which are designed to ensure a smooth transition from Solvency I (the old regime) to Solvency II (the new regime). The benefit of the Transitional Measures on Technical Provisions is to be phased out over a 16-year period which commenced on 1 January 2016. There remains some uncertainty over the pace of run-off within that period, in particular in

circumstances where the Transitional Measures on Technical Provisions are required to be recalculated due to a future material change in the risk profile of the Guarantor.

The Group is not aware of any current matters or circumstances that might reasonably be expected to result in the Guarantor on a solo or Group basis losing the benefit of the discretionary matters set out above. However, the loss of such discretionary matters could have a material adverse effect on the regulatory capital position of the Guarantor and the Group. An increase in the regulatory capital and/or reserving requirements of an entity or a restriction on the use of capital within the Group, or a reduction in the value of the own funds that can be used to meet such requirements, may also have a negative impact on the financial condition of the Group.

3.3 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 changes in law and regulation which impact the viability of the Group's propositions in those markets.

The impact of the current difficult political environment is uncertain; particularly in view of Brexit, the uncertainty surrounding the global impact of potential changes in U.S. policy, and a potential future independence referendum in Scotland. It is possible that there could be severe adverse economic effects which will directly or indirectly impact the Group; for example, considerable financial instability, worse economic conditions, a significant fall in property prices and currency fluctuations, and could include lower and/or negative growth and higher unemployment and inflation in the United Kingdom, Ireland, continental Europe and/or the global economy, at least in the short to medium term. It could also create constraints on the ability of the Group to operate efficiently in the future political environment including as a result of future changes in government or governmental or fiscal policy. There could therefore 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 these uncertainties. Such disruption may have a negative impact on the financial condition of the Group.

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 operations, financial results and/or financial condition in ways that cannot necessarily be predicted.

3.4 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 or 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 operations, financial results and/or financial condition of the Group.

There are also specific rules governing the taxation of policyholders. The Group is unable to predict accurately 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 operations, financial results 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. This, in turn, may impact the future business of the Group if policyholders and potential policyholders choose not to invest in life insurance products written by the Group.

3.5 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. As well as distribution through intermediaries, the Group also sells directly to customers, mainly through the Consumer division.

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, any regulatory action requiring past business reviews, payments of fines, restitution or compensation and any amounts payable in respect of any such issue could have a material adverse effect on the Group's operations, financial results and/or financial condition.

3.6 Changes to accounting standards generally or specifically for insurance companies may have an adverse impact on the Group's business; the Group expects to report under UK Generally Accepted Accounting Principles ("GAAP") from 1 January 2020.

After careful consideration the Board has taken the decision that European Embedded Value ("**EEV**") will no longer be the principal reporting metric. EEV is no longer a commonly used metric in the life insurance market. The Board has decided to move to UK GAAP and consider this to be a more suitable basis for a UK mutual than IFRS. The Group currently expects and plans to transition to UK GAAP with

effect from the financial year commencing 1 January 2020.

UK GAAP is considered to be a better reporting basis for the Group because it increases the level of transparency of financial performance, it is widely recognised and understood by readers of accounts and it improves the efficiency of the Group through a reduction in the number of reporting bases.

However, any future changes or modification of UK GAAP could impact the reporting of the Group's future results or a retrospective adjustment of reported results. This in turn could have a material impact on the Group's balance sheet and future and previously reported results. The move from IFRS to UK GAAP will also reduce comparability between the financial statements for earlier periods and those ending after 31 December 2019, arising through differences in the presentation of the financial statements and differences in valuation and recognition where IFRS and UK GAAP are not aligned. Investors in the Notes may therefore find it more difficult to monitor the financial health of the Guarantor and the Group in the years immediately following the move from IFRS to UK GAAP as there will be a limited track record of comparable financial information available to them. It is not clear how the move from IFRS to UK GAAP will be interpreted by investors in the Notes or other financial products of the Group, rating agencies and other stakeholders or how it will impact the timing and amount of corporation tax or market perception of the Guarantor and the Group. However, such changes in corporation tax could include significant one-off costs in a particular fiscal period and an adverse market perception could indirectly lead to a negative impact on the financial condition of the Group.

3.7 A possible future further referendum on Scottish Independence could have a material adverse effect on the operations, financial results and/or financial condition of the Group.

While the Group's insurance entities are incorporated in England and Ireland, a substantial portion of the Group's policyholders and employees are situated in Scotland. Scotland's First Minister has called for a further referendum on Scottish independence from the rest of the UK. It is uncertain whether any such referendum will in fact occur, what the outcome would be, and, if a referendum occurred and Scotland voted to leave the UK, what Scotland's future relationship with the rest of the UK and the EU would be, what currency and tax regime it would adopt, whether it would have its own central bank and how it would regulate the financial services sector. The consequences of a potential future referendum on the Scottish economy, the economy of the remainder of the UK and the Group's business are therefore uncertain. However, while such consequences are uncertain, they may have a material negative impact on the Group's financial results and/or financial condition.

3.8 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 operations, financial results and/or financial condition.

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 Group specific, 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*".

3.9 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 – whether as a result of changes in regulatory requirements, judicial interpretation or industry best practice – may increase the compliance and governance costs of the Group in the future, reduce the profits of the Group which are derived from With-Profits Business and may affect the future strategy and operations of the Group. This, in turn, may have negative impact on the financial condition and overall results 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.

3.10 Changes in the general law may adversely impact the operations, financial results and/or financial condition of the Group.

The recent decision of the English High Court (the "**Court**") in deciding not to approve the transfer of a portfolio of annuity policies from Prudential Assurance Company Limited to Rothesay Life plc means that there is uncertainty over the extent to which UK insurers such as the Guarantor can transfer policies to another insurer or in from another insurer to increase or decrease the size of the business and/or exposure to risks of particular types. That decision may be appealed and/or distinguished in future cases but for the time being there is considerable uncertainty as to its impact for the Group or the insurance industry as a whole but it may make business acquisitions and disposals and consolidation in the industry significantly more difficult to achieve. This is one example of how changes in the general law could have a material adverse effect on the Group's operations, financial results and/or 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 which may materially adversely affect the Group's operations, financial results and/or financial condition.

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 further 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 operations, financial results and/or financial condition 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 its 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 operations, financial results and/or 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. However, acquisitions made in the past or future acquisitions may or may not realise the profitability or synergies expected at the time of the acquisition. Further acquisitions, disposals and other corporate transactions and the establishment and development of new businesses may not reach a successful conclusion. Future acquisitions may not always be possible, including where regulatory or other consents are not forthcoming or in circumstances where the UK courts are unwilling to exercise a discretion to sanction transfers of businesses between insurance groups under the UK statutory business transfer regime for authorised firms (on which see further risk factor 3.10 above). 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 operations, financial results and/or financial condition.

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 operations, financial results and/or financial condition, and presents a significant risk to the delivery of the Group's overall strategy.

4.3 The Group's businesses are conducted in highly competitive environments and the market for new life assurance and pensions business is likely to intensify. Technological developments are also likely to further increase competition and disruption to market.

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 the Group's 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, marketing and distribution arrangements, brand strength and reputation, financial strength ratings, investment returns and customer service including the use of technology to bring products to the market. Competition will likely intensify across all business lines in response to consumer demand, the impact of consolidation, regulatory actions and other factors, with a particular increase in competition in pricing.

Technological advances and the resulting acquisition of very significant numbers of potential insurance customers and their data by technology companies have allowed, and will continue to allow, new competitors to emerge both from within the traditional financial services industry and from outside it, and continued advances in technology may lead to further new entrants from the 'fintech' sector. Across all financial product markets, a full-scale entry by one or more of the very large technology companies remains a potential threat. Parallel to these developments, the distribution model for the industry continues to change rapidly with the expansion of price comparison websites and the many personal financial management tools that are emerging from the 'fintech' sector.

In the asset management sector, growth in passively-run index trackers continues to gain pace, propelled by the U.S. market and the inability of many active strategies consistently to outperform their benchmarks, net of fees. Market access to passive investing, including strategies driven by robo-advice and artificial intelligence, is cheap and increasingly pervasive through passive funds and exchange-traded products and therefore poses a risk to the investment styles of the Group which to date have been characterised predominantly by the active management of funds. As a consequence, there is a risk that this will create downward pressure on fees, negatively impacting the Group's ability to deliver its planned financial results. Competition may also intensify in response to customer demand, further technological changes and the impact of consolidation amongst the Group's competitors.

The ability to generate an appropriate return depends significantly upon the Group's capacity to anticipate and respond appropriately to these competitive pressures and technological advances. To the extent that the Group is not able to do so, this could have a negative impact on the Group's business, reputation and brand, sales, financial results, financial condition and growth prospects.

4.4 The Group needs to reduce the expenses of managing long-term business in line with the run-off profile of its Closed Sub-Funds. The inability to adjust these costs could have an adverse effect on the Group.

The Group's legacy division consists of long-term run-off policy portfolios and should become smaller over time. In order to protect with-profits policyholder benefits, it will be necessary to reduce the costs of managing the Group's long-term business at least in line with the run-off profile, which the Group partly does through the use of outsourcing arrangements. The Group is exposed to the risk that it may be unable to reduce costs proportionately or to make changes to achieve an appropriate balance of fixed and variable costs. This exposure could arise, for example, from deficient management, contractual restrictions, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. The current expense assumptions for policy charges are based on Group costs and take into account the anticipated run-off profile of the Group's business. An inability to adjust these costs could therefore have a material adverse effect on the Group's operations, financial results and/or financial condition. In addition to managing policy costs, the Group is exposed to losses, particularly on historical long-term business as a result of the failure or poor execution of significant operational processes.

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

The Group is exposed to the economic, market, fiscal, regulatory, legislative, political and social conditions in the UK and, to a lesser extent, 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, risks of low or negative growth rates in the UK can adversely affect consumers' disposable income and demand for the Group's products and services, which may adversely impact the Group's operations, financial results and/or financial condition.

4.6 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 2018, the proportion of RLAM's funds under management between the Group and other external clients were 70 per cent. and 30 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 operations, financial results and/or 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 (including at short notice) or terminating their contracts, any of which could cause the Group's revenues and earnings to decline and cause a negative impact on the financial results and/or financial condition of the Group.

4.7 Demand for the asset classes underlying the funds and portfolios managed by RLAM change over time. Certain funds and portfolios may become less attractive to investors. Conversely, demand for a fund could exceed the available capacity of that fund or portfolio.

RLAM manages its investments in a range of asset classes, most notably equities, fixed income, multi-asset and real estate, and its investment style and philosophy is to be predominantly an active manager of its funds. Sales of RLAM funds, both from Guarantor policyholders and external clients, are determined by the relative attractiveness to investors of these asset classes and of the particular types of assets that are the focus of the funds, as well as the investment style of the funds.

There is a risk that demand moves against the planned strategic direction of RLAM, which may result in reduced sales and/or increased redemptions from funds which become less attractive to investors. Such developments could have a material adverse effect on the operations, financial results and/or financial condition of the Group.

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

A significant proportion of the Group's new business is derived from independent distributor firms, over whom the Group has no direct influence. Effective distribution is therefore dependent on meeting a number of competitive challenges. The Group's new business propositions must compete with other strong competitor firms in the market place. The Group must continue to be attractive to independent distributor firms by distinguishing itself on factors such as value for money, customer centricity, service excellence and mutuality. Failures in such third party distribution could have a material adverse effect on the operations, financial results and/or financial condition of the Group.

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, data security and confidence are paramount. See also "*Operational Risks*" below.

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. Further, the FCA conducted a market study into the asset management sector and published its final findings in June 2017. The findings identified several ways in which asset management products and services could work better for retail and institutional investors and proposed certain remedies to address this. The implementation of such remedies, and any other related measures that are introduced, could affect the pricing of funds, which could in turn affect the profitability of the Group. The FCA referred the investment consultancy and fiduciary management services sector to the Competition and Markets Authority ("**CMA**"), who published a final report in December 2018. The CMA outlined a package of remedies, most of which are expected to be in place by the end of 2019. The introduction and implementation of such remedies could have an impact on the

Group's business. Any further remedies introduced as a result of the asset management market study could also impact the asset management businesses of the Group.

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 operations, financial results and/or financial condition, including: reducing public confidence in the Group, decreasing its ability to retain current policyholders or attract new business, causing material withdrawals of assets under management (including at short notice) and/or adversely affecting the Group's ability to obtain reinsurance or obtain such reinsurance on reasonable 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, customers, intermediaries and counterparties and could have a material adverse effect on the operations, financial results and/or financial condition of the Group.

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 the 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 uncertainties experienced in 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 counterparties, including 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 operations, financial results and/or 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 operations, financial results and/or financial condition.

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 via its Solvency and Financial Condition Report, statutory financial statements and disclosures required to be made via a regulatory information service to the regulated market of the London Stock Exchange in connection with its listed debt securities. 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. Failure to manage disclosure risk or financial and prudential reporting risk could result in breach of law, regulatory censure, and reputational damage leading to loss of investor confidence and/or financial loss to the Group and hence have a negative impact on the financial results and/or financial condition of the Group.

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. See also risk factor 3.1 above. Additionally, as the Group is reliant on intermediaries to distribute many of 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 and hence a negative impact on the financial results and/or financial condition of the Group.

6.2 Policyholders may attempt to seek redress, or may be awarded compensation, where 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 from the Group where the product fails to meet their reasonable expectations. Given the inherent unpredictability of litigation and evolution of decisions by the Financial Ombudsman Service ("**FOS**") and the FCA, it is possible that an adverse outcome in some matters could result in penalties being imposed or compensation awarded which in aggregate and, taken together with the costs of defending any action or addressing regulatory concerns, could have a negative impact on the financial results and/or financial condition of the Group.

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 and in the timing, frequency and severity of insured events relative to those expected when the risk was originally accepted.

7.1 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, transfer, withdrawal or ceasing payment of future premiums 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 (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 acquisition 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.

7.2 The use of inaccurate assumptions in pricing and reserving for insurance business may have a material adverse effect on the operations, financial results and/or financial condition 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 of 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 its 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 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 operations, financial results and/or 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 expenses. 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 operations, financial results and/or financial condition of the Group 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 operations, financial results and/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 Principles and Practices of Financial Management ("**PPFM**") 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 operations, financial results and/or financial condition of the Group.

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

The Group has exposure to longevity risk through annuities. 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.

Although the risk is partially mitigated through the use of collateralised third party reinsurance arrangements, there is still a residual risk and 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 operations, financial results and/or financial condition.

7.5 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"), Acquired value of in-force business ("AVIF") and other intangible assets varies significantly, it may be required to accelerate the amortisation and/or impair the asset which could adversely affect the operations, financial results and/or financial condition of the Group.

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 in the presentation of financial results 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 operations, financial results and/or financial condition of the Group.

AVIF reflects the estimated present value of the future profit that will emerge from acquired contracts over the remaining life of certain in-force contracts in a life insurance company. 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. Such adjustment could have an adverse effect on the Group's operations, financial results and/or financial condition.

Intangible asset amounts are held at cost less accumulated amortisation and impairment (where relevant). The carrying value of intangible assets is reviewed annually or at a point in which there is an indication that the carrying value may not be recoverable. A significant change in performance could lead to an accelerated amortisation or impairment event which could have an adverse effect on the Group's results.

7.6 Principles and Practices of Financial Management ("PPFM") lead to operational complexity 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 significant capital support from the Royal London Open Fund to be made available, which could adversely affect the operations, financial results and/or financial condition of the Group.

7.7 Catastrophic events, which are 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 operations, financial results and/or financial condition in any period and, depending on its severity, could also materially and adversely affect the Group's operations, financial results and/or 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.

7.8 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. 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.

Life insurance fraud in the form of false death claims, non-reporting of death for an annuity in payment, 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.

Such fraud may result in adverse effects on the operations, financial results and/or financial condition of the Group.

OPERATIONAL RISKS

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

8.1 Weaknesses or failures in the Group's internal processes, systems, security or outsourcing could materially affect the Group's operations, financial results and/or financial condition 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, providing customer support, processing premium payments, making changes to existing policies, filing and paying claims, administering annuity products, managing the Group's investment portfolio, and producing reports required by law and regulation. Furthermore, the long-term nature of the Group's business means that accurate records have to be maintained for significant periods. 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 customer data and may adversely affect the Group's operations, financial results and/or financial condition.

Operational risks, through inadequate or failed internal processes, systems (including financial and capital 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.

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 operations, financial results and/or financial condition.

If the Group does not effectively develop and implement its outsourcing strategy or third party providers do not perform as anticipated, the Group may incur increased costs or liabilities and a loss of business, which could have a material adverse effect on the Group's operations, financial results, and/or financial condition or prevent it from meeting its regulatory obligations.

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 cybercriminals (including malicious software, distributed denial of service attacks and hacking of systems), could disrupt its business, result in the disclosure of confidential

information, including the personal data of customers, and create significant financial, legal and regulatory exposure for the Group. See also risk factor 8.4 below. The increasing sophistication of cybercriminals and the importance of digital interaction with the Group's customers means the inherent risk of failure of its operations due to the malicious acts of third parties is expected to increase. 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 operations, financial results and/or financial condition.

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.

8.2 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 operations, financial results and/or financial condition.

The Group has completed a number of significant internal change programmes to continuously improve its capabilities and the experience of its customers, and may undertake other significant change programmes in the future. During periods 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 operations, financial results and/or financial condition. 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 operations, financial results and/or financial condition.

8.3 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. In addition, volatile market conditions may increase the exposure of the Group arising from a failure to process instructions on a timely basis.

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. It is also 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. Additionally, a delay in the processing of instruction to purchase and sell unit-linked

investments exposes the Group to investment risk. This is heightened in periods of market volatility. These risks are also faced by the Group's asset management and administration businesses.

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.

8.4 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, including certain sensitive 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 are held in accordance with the General Data Protection Regulation (EU) 2016/679 ("**GDPR**"), which increased the territorial scope of the existing EU data protection framework and now imposes stronger sanctions on those who breach it, amongst other things. Despite the controls put in place, the risk remains 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, and should this occur the penalties for such a breach under the new regime are much more substantial than previously. 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 operations, financial results and/or financial condition.

8.5 The Group may be required to make significant further contribution to its pension schemes if the value of pension fund assets is not sufficient to cover potential liabilities. An increase in the Group's funding commitment for its defined benefit pension schemes may impact on its operations, financial results and/or financial condition.

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 at the latest valuation date. 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 operations, financial results and/or financial condition. In addition, pension risks are required to be taken into account in the calculation of the Group's capital.

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 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 its "connected" or "associated" persons to provide additional contributions or other forms of financial support in certain circumstances. Any such requests of the regulator may adversely affect the capital position of the Group by the amount of the required additional contributions.

(B) RISKS RELATING TO THE NOTES

9 Risks related to the Structure of the Notes

9.1 Payment Obligations and Subordination

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

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. See further Condition 4.

The Guarantor is the parent company of the Insurance Group as well as being a regulated insurance company. Certain 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. Further, the Guarantor has entered into various fixed and floating charges, including those supported by collateral framework arrangements with RLI DAC, which may further limit the cash available to meet the unsecured payment obligations of the Guarantor under the Notes. See further "*Description of the Guarantor – Recent significant events – Part VII Transfer effected in 2019*".

If the Guarantor's financial condition deteriorates such that there is an increased risk that there may be a Guarantor Winding-Up, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price that may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes, whether or not there is a Guarantor Winding-Up.

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.

Any actual or anticipated deferral of payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the deferral provisions 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.

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

Either the Issuer or the Guarantor may elect to defer payments of interest on the Notes for any reason and may be most likely to do so when the Guarantor or the Group is in financial distress or directed to do so by the PRA in circumstances where it is entitled to do so. In addition, the Issuer, failing whom the Guarantor, is required to defer any payment of interest on the Notes (i) in the event that such payment cannot be made in compliance with the Solvency Condition or (ii) on each Regulatory Deficiency Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest were made on such Interest Payment Date).

The deferral of interest (and Guaranteed Amounts in respect of interest) as described above does not constitute a default under the Notes or the Guarantee for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by the Issuer at any time upon notice to Noteholders, but in any event shall be payable, subject to satisfaction of the Regulatory Clearance Condition and (except where a Guarantor Winding-Up occurs) the Solvency Condition, on the earliest to occur of (a) the next Interest Payment Date which is not a Regulatory Deficiency Interest Deferral Date and on which payment of interest in respect of the Notes is made or is required to be made pursuant to the Conditions, (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), 8(e) or 8(f) in the event that it cannot make the redemption payments in compliance with the Solvency Condition or (ii) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed by the Issuer on such date.

The deferral of redemption of the Notes (and the payment of Guaranteed Amounts in respect of redemption of the Notes) does not constitute a default under the Notes or the Guarantee for any purpose. Where redemption of the Notes is deferred, subject to certain conditions (including satisfaction of the Regulatory Clearance Condition, and except where a Guarantor Winding-Up occurs, the Solvency Condition), the Notes will be redeemed by the Issuer on the earliest of (a) (if deferral was due to a Regulatory Deficiency Redemption Deferral Event) the date falling 10 Business Days following cessation of the Regulatory Deficiency Redemption Deferral Event or (if deferral was due to the Solvency Condition) the date falling 10 Business Days after the date on which the Guarantor is solvent within the meaning of the Solvency Condition, (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:

(A) on any day falling in the period commencing on (and including) 7 April 2039 and ending on (and including) First Reset Date;

(B) on any Interest Payment Date after the First Reset Date; or

(C) at any time (i) in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof, or (ii) following the occurrence of a Capital Disqualification Event or the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Ratings Methodology Event.

The Guarantor currently expects the Notes to qualify (subject to any applicable limitations on the amount of such capital) as Tier 2 Capital of the Guarantor and the Insurance Group. The Guarantor notes the recent publication by the PRA of Consultation Paper 16/19 entitled "*Solvency II: Group availability of subordinated liabilities and preference shares*". Having considered the terms of the consultation, the

Guarantor does not currently expect the outcome of such consultation to result in any decrease in the quantum of the Notes which will qualify as Tier 2 Capital for the Guarantor or the Insurance Group. However, there is a risk that following any future change to the Relevant Rules, the Notes will cease to qualify as Tier 2 Capital of the Guarantor or the Insurance Group or that they will become and later cease to be Tier 2 Capital of another 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 or (in the case of a Ratings Methodology Event) Rating Agency Compliant Securities (as the case may be) at any time in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof or following the occurrence of a Capital Disqualification Event or the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Ratings Methodology Event.

Whilst any Qualifying Dated Tier 2 Securities or Rating Agency Compliant Securities must have terms not materially less favourable to an investor than the terms of the Notes, there can be no assurance that any Qualifying Dated Tier 2 Securities or Rating Agency Compliant Securities will be as favourable to investors in all respects as the Notes. Any features of Qualifying Dated Tier 2 Securities or Rating Agency Compliant Securities which are not as favourable to investors as the Notes may have an adverse effect on the market price of the Notes.

9.7 Restricted remedy for non-payment when due

The Issuer is a special purpose vehicle

The Issuer is a special purpose vehicle set up for the sole purpose of issuing the Notes and on-lending the proceeds to the Guarantor. The Issuer is not an operating company. As such, substantially all of the Issuer's assets will be the on-loan to the Guarantor referred to under "*Use and Estimated Net Amount of Proceeds*" below. Should the Guarantor fail to pay interest on or repay the loan in full and in a timely fashion this would have a material adverse effect on the ability of the Issuer to fulfil its payment obligations under Notes. Each of the risks relating to the Guarantor will also therefore indirectly affect the Issuer and if the Guarantor's financial condition were to deteriorate, the Issuer, and accordingly investors in the Notes, may suffer direct and materially adverse consequences. See also, in addition, risk factor 9.1 above.

Limited remedies for non-payment by the Issuer when due

If the Issuer is in default of any payment of interest (including any Arrears 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.

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.

Limited remedies for non-payment by the Guarantor when due

If default is 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.

Remedies upon a Guarantor Winding-Up and/or Issuer Winding-Up

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 prove in the winding-up or administration of the Issuer and/or the Guarantor, and/or may claim in the liquidation of the Issuer and/or the Guarantor, but may take no further action. Any amounts recovered from the Issuer or the Guarantor will reduce the Noteholders' claim against the Guarantor or the Issuer, respectively, and in no event shall a Noteholder be able to recover more from the Issuer, or from the Issuer and the Guarantor together, than it would otherwise have been able to recover directly from the Guarantor alone. There can be no assurance that an Issuer Winding-Up will occur at the same time as or following a Guarantor Winding-Up.

As a result of the above, there is a significant risk that an investor in the Notes may not be able to recover its investment should the Issuer and/or the Guarantor fail to make payment under the Notes when due.

9.8 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 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.

9.9 Change of law

The Conditions are based on English law and regulation 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, regulation or administrative practice after the date of issue of the Notes and any such change could materially adversely impact the value of any Notes affected by it.

9.10 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 Other risks related to the Notes

10.1 The secondary market generally

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

10.2 Exchange rate risks and exchange controls

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

10.3 Fixed rate reset notes are exposed to specific market risks

The Notes bear a fixed rate of interest which will be reset on the First Reset Date (being 7 October 2039) and every Reset Date thereafter. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). Given the long maturity of the Notes, potential movements in the Market

Interest Rate over the life of the Notes are difficult to predict. While the nominal rate of a security with a fixed interest rate is fixed for a specified period, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security is likely to change in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Notes and can lead to losses for the Noteholders if they sell the Notes.

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

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

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer and the Guarantor are each foreign financial institutions for these purposes. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding, and Noteholders may receive less than the full amount due under the Notes and the market value of the Notes may be adversely affected.

10.5 Investors may be liable to pay certain taxes in circumstances where neither the Issuer nor the Guarantor is obliged to pay additional amounts to investors in respect of such taxes

All payments 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 (as defined in the Conditions), unless such withholding or deduction is required by law. In that event, in respect of payments of interest (including Arrears of Interest and payments of Guaranteed Amounts in respect of interest and Arrears of Interest), but not principal or any other amount (or Guaranteed Amounts in respect of principal or any other amounts), the Issuer or, as the case may be, the Guarantor shall (subject to certain customary exceptions as set out in Condition 10) 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.

Potential investors should be aware that neither the Issuer, the Guarantor nor any other person will be liable for or otherwise obliged to pay, and the Noteholders will be liable for and/or pay, any tax, duty, charge, withholding or other payment whatsoever which may arise as a result of, or in connection with, the ownership, any transfer and/or any payment in respect of the Notes, except as provided for in the Conditions.

In particular, the Notes do not provide for payments of principal to be grossed up in the event withholding tax of the Relevant Jurisdiction is imposed on repayments of principal. As such, the Issuer or the Guarantor, as applicable, would not be required to pay any additional amounts as described above under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Noteholders may receive less than the full amount due under the Notes and the market value of the Notes may be adversely affected.

10.6 Credit ratings may not reflect all risks

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. 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.

In addition, rating agencies may from time to time elect to assign credit ratings to the Issuer, the Guarantor, the Notes or any of their other securities on an unsolicited basis. Any changes in, or withdrawals of, unsolicited ratings may also affect the market value of the Notes, notwithstanding that the information available to such rating agency may be limited to publicly available information.

10.7 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.

10.8 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.

10.9 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.

Written resolutions executed by or on behalf of the holders of not less than 75 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, and resolutions passed by way of electronic consents given by holders of not less than 75 per cent. in principal amount of the Notes, shall also take effect as Extraordinary Resolutions and shall bind all Noteholders, including Noteholders who did not execute the written resolution or, as the case may be, did not give any electronic consent.

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.

Accordingly, there is a risk that the terms of the Notes may be modified, waived or amended in circumstances where an investor in the Notes does not agree to such modification, waiver or amendment, which may adversely impact the rights of such investor.

10.10 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.

Accordingly, there is a risk that a substitution or transfer may be effected in circumstances where an investor in the Notes does not agree to such substitution or transfer which may adversely affect the market value of the Notes.

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 £600,000,000 4.875 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 (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. 4 plc (the "**Issuer**") passed on 19 September 2019. The subordinated guarantee of the Notes was authorised by resolutions of the board of directors of The Royal London Mutual Insurance Society Limited (the "**Guarantor**") passed on 9 August 2019 and 27 September 2019 and resolutions of a committee of the board of directors of the Guarantor passed on 20 September 2019. The Notes are constituted by a trust deed (the "**Trust Deed**") dated 7 October 2019 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 7 October 2019 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(*e*) and Condition 14 and ending on the date referred to in such notice as having been fixed for such payment of Arrears of Interest.

(e) Regulations

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

3 Status of the Notes, etc.

(a) Status

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

(b) Issuer Winding-Up

(i) If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee or the Noteholders could recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a subordinated obligation of the Guarantor for an amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee), then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such excess 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 (including the obligation to pay such aforementioned damages, if any) pursuant to, and in accordance with, Condition 4(*c*) and shall be deemed 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 (including the Guarantee) 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 (including the Guarantee) are

discharged by set-off, such Noteholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, as appropriate, the Guarantor or, if applicable, the liquidator, trustee, receiver or administrator of the Issuer or, as appropriate, the Guarantor and, until such time as payment is made, will hold a sum equal to such amount on trust for the Issuer or, as appropriate, the Guarantor or, if applicable, the liquidator, trustee, receiver or administrator in the relevant liquidation, winding-up or administration. Accordingly, such discharge will be deemed not to have taken place.

4 Guarantee

(a) Status

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

(b) Subordination

If:

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

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

(the events in Conditions 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 in respect 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, Tier 2 Capital 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 in respect of (i) any subordinated obligations of the Guarantor which rank, or are expressed to rank, junior to the Guarantee and (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, Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith 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 (including any damages awarded against the Issuer for breach of any of its obligations thereunder) 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 or such Subsidiary (as the case may be) 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*), 8(*e*) and 8(*f*).

5 Interest

(a) Interest Rate

Each Note bears interest on its outstanding principal amount at the applicable Interest Rate from (and including) the Issue Date to (but excluding) the Maturity Date (or such other date on which the Notes become due for redemption) in accordance with the provisions of this Condition 5.

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

(b) Interest Accrual

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

(c) Interest Rates

Each Note bears interest on its outstanding principal amount at the rate of 4.875 per cent. per annum (the "**Initial Interest Rate**") from (and including) the Issue Date to (but excluding) the First Reset Date.

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

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

The amount of interest payable (subject to Conditions 3(*c*) and 6) in respect of each £1,000 in outstanding principal amount of a Note on each Interest Payment Date up to (and including) the First Reset Date shall be £48.75.

(d) Determination of Reset Rate

The Interest Calculation Agent will, as soon as practicable after 11.00 a.m. (London time) on the date falling two Business Days prior to each Reset Date, determine the applicable Reset Rate and shall promptly notify the Issuer and the Guarantor thereof.

(e) Publication of Reset Rates

Once the Issuer and the Guarantor have been notified of the Reset Rate by the Interest Calculation Agent in accordance with Condition 5(*d*), the Issuer (failing which, the Guarantor) shall cause notice of the applicable Reset Rate, and the amount of interest which will (subject to Conditions 3(*c*) and 6) be payable per £1,000 in outstanding principal amount of a Note on each Interest Payment Date in respect of which the relevant Reset Rate applies, determined in accordance with this Condition 5, to be given to the Trustee, the Paying Agents, the Noteholders in accordance with Condition 14 and any stock exchange on which the Notes are for the time being listed or admitted to trading, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(f) Interest Calculation Agent

With effect from the date falling two Business Days prior to the first Reset Date, and for so long as any Notes remain outstanding thereafter, the Issuer shall maintain an Interest Calculation Agent.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Interest Calculation Agent with another financial institution in London or an independent adviser of recognised standing and appropriate expertise. If the Interest Calculation Agent is unable or unwilling to continue to act as the Interest Calculation Agent or fails duly to determine the Reset Rate as provided in Condition 5(*d*), the Issuer and the Guarantor shall forthwith appoint another financial institution in London or an independent adviser of recognised standing and appropriate expertise, in either case approved in writing by the Trustee to act as such and make the relevant determination in its place.

(g) Determinations of Interest Calculation Agent binding

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

6 Deferral of Interest

(a) Optional Deferral of Interest

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

(b) Mandatory Deferral of Interest

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Regulatory Deficiency Interest Deferral Date. The Issuer, failing whom the Guarantor, shall notify the Noteholders, the Trustee and the Principal Paying Agent of any Regulatory Deficiency Interest Deferral Date in accordance with Condition 6(*f*) (provided that failure to make such notification shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date) and neither the Issuer nor the Guarantor shall have any obligation to make such payment on that date.

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

(c) No default

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

(d) Arrears of Interest

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

Arrears of Interest shall not themselves bear interest.

(e) Payment of Arrears of Interest by the Issuer

Any Arrears of Interest may (subject to Condition 3(*c*), to satisfaction of the Regulatory Clearance Condition and to a Regulatory Deficiency Interest Deferral Event not existing at the time of, or occurring as a result of, such payment) be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer or the Guarantor to the Trustee, the Principal

Paying Agent and the Noteholders in accordance with Condition 14 and in any event will become due and payable by the Issuer (subject, in the case of Conditions 6(*e*)(i) and 6(*e*)(iii) below, to Condition 3(*c*) and to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

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

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

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

(f) Notice of Deferral

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

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

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

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

provided that (with regard to (ii) and (iii) above only) any delay in giving any such notice or any failure to give any such notice shall not result in such interest becoming due and payable on the relevant Interest Payment Date.

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 8(*h*) and to the satisfaction of the Solvency Condition and any provisions of the Relevant Rules 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 7 October 2049 (the "**Maturity Date**"), together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

(b) Deferral of redemption date

(i) No Notes shall be redeemed on the Maturity Date pursuant to Condition 8(*a*) or, prior to the Maturity Date, pursuant to Condition 8(*d*), 8(*e*) or 8(*f*) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption were made on the otherwise applicable redemption date 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) or Condition 8(*b*)(iv), provided that if the relevant event or circumstance requiring deferral occurs or is determined 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 or determination of such event or circumstance; provided that any delay in making or any 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 and neither the Issuer nor the Guarantor shall have any obligation to make payment on that date.

(iii) If redemption of the Notes does not occur on the Maturity Date or, as the case may be, the date specified in the notice of redemption by the Issuer under Condition 8(*d*), 8(*e*) or 8(*f*) as a result of circumstances where:

(A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were to be redeemed on such date; or

(B) the PRA does not consent to the redemption (to the extent that consent is then required by the PRA or the Relevant Rules) or the PRA objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date,

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 10th Business Day 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, 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*), and provided further that 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 the Notes were to be redeemed on such date, then the Notes shall not be redeemed on such date, redemption shall be deferred in accordance with Condition 8(*b*)(i), and Condition 8(*b*)(iii) shall apply *mutatis mutandis* to determine the due date for redemption of the Notes.

(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.

(vi) In circumstances where redemption of the Notes has been deferred, the Issuer will notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 14 as soon as reasonably practicable after it has determined the relevant deferred date for redemption, and (if applicable) of any subsequent redemption deferrals and corresponding deferred dates for redemption.

(c) Deferral of redemption not a default

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

(d) Redemption at the option of the Issuer

Subject to Conditions 8(*b*) and 8(*h*), the Issuer may, having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes:

(i) on any day falling in the period commencing on (and including) 7 April 2039 and ending on (and including) the First Reset Date; or

(ii) on any Interest Payment Date after the First Reset Date,

in each case at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption.

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

(e) Redemption, variation or substitution for taxation reasons

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

(i) as a result of any change in (or proposed change in), or amendment to (or proposed amendment to), the laws or regulations of a Relevant Jurisdiction (including any treaty to which such Relevant Jurisdiction is a party), or any change (or proposed change in) in the application or official or generally published interpretation of the laws or regulations of a Relevant Jurisdiction (including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously official or generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Notes), which change or amendment becomes (or would become) effective on or after the Issue Date, on the next Interest Payment Date either (a) the Issuer would be required to pay additional amounts as provided or referred to in Condition 10; or (b) the Guarantor in making payment of Guaranteed Amounts would be required to pay such additional amounts; or (c) the payment of interest (or any Guaranteed Amounts in respect of interest) would be treated as a "distribution" for United Kingdom corporation tax purposes or the Issuer or the Guarantor would otherwise not be able to claim a deduction from taxable profits for United Kingdom corporation tax purposes for interest (or any Guaranteed Amounts in respect of interest) payable on the Notes or for a material part of such interest (or Guaranteed Amounts in respect of such interest); or (d) where (A) in respect of the payment of interest (or any Guaranteed Amounts in respect of interest), the Issuer or the Guarantor, as the case may be, incurs a loss or a non-trading loan relationship deficit for United Kingdom corporation tax purposes in respect of such interest or Guaranteed Amounts in relation to an accounting period; and (B) other companies with which the Issuer or the Guarantor (as the case may be) is grouped for the purpose of group relief from applicable United Kingdom corporation tax have profits chargeable to United Kingdom corporation tax in respect of that accounting period but such loss or deficit is not capable of being surrendered to offset such profits chargeable to United Kingdom corporation tax of such other companies for United Kingdom corporation tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

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

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

(1) redeem all (but not some only) of the Notes, at any time at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which:

(A) with respect to Conditions 8(*e*)(i)(a) and 8(*e*)(i)(b) above, the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts;

(B) with respect to Condition 8(*e*)(i)(c) above, a payment of interest (or Guaranteed Amounts in respect of interest) would be treated as a "distribution" for United Kingdom corporation tax purposes or otherwise not deductible from taxable profits for United Kingdom corporation tax purposes (or a material part of it would not be so deductible), in each case as referred to in Condition 8(*e*)(i)(c) above; or

(C) with respect to Condition 8(*e*)(i)(d) above, a payment of interest (or Guaranteed Amounts in respect of interest) would cause a loss or non-trading loan relationship deficit for United Kingdom corporation tax purposes which is not capable of being surrendered as referred to in Condition 8(*e*)(i)(d) above, in each case were a payment in respect of the Notes then due; or

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

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

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

Subject to Conditions 8(*b*) and 8(*h*), if a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or the Issuer or the Guarantor satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable ratings methodology, a Ratings Methodology Event will occur within a period of six months, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14, the Trustee, the Principal Paying Agent and the Registrar, which notice (subject as aforesaid) shall be irrevocable, either:

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

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

Methodology Event) in the definition of "Rating Agency Compliant Securities") agree to such substitution or variation.

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

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

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

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

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

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

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

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

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) Any redemption or purchase of the Notes and any substitution or variation of the terms of the Notes is subject to the Issuer or, as the case may be, the Guarantor having complied with the Regulatory Clearance Condition. Prior to the publication of any notice of redemption 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 the 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 before the fifth anniversary of the Reference Date may only be made:

(A) 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 (or, alternatively, in the case of a purchase of Notes only, by means of an exchange of such Notes for a new issuance of capital of at least the same quality as the Notes) and that such redemption or purchase is otherwise permitted under the Relevant Rules; or

(B) in the case of any redemption prior to the fifth anniversary of the Reference Date pursuant to Condition 8(*e*) or due to a Capital Disqualification Event pursuant to Condition 8(*f*), on condition that such redemption or purchase is permitted under the Relevant Rules and that the PRA is satisfied that the Solvency Capital Requirement applicable to the Guarantor, the Insurance Group and each member of the Insurance Group will be exceeded by an appropriate margin immediately after such redemption (taking into account the solvency position of the Guarantor and all or such relevant part of the Insurance Group, including by reference to the Guarantor's or the Insurance Group's medium-term capital management plan); and

(I) in the case of redemption pursuant to Condition 8(*e*), on condition that the Issuer has demonstrated to the satisfaction of the PRA that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Reference Date; or

(II) in the case of redemption pursuant to Condition 8(*f*) following the occurrence of a Capital Disqualification Event, on condition that the PRA considers that the relevant change in the regulatory classification of the Notes is sufficiently certain and that the Issuer has demonstrated to the satisfaction of the PRA that such change was not reasonably foreseeable as at the Reference Date.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase of the Notes, the prevailing Relevant Rules permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 8(*h*), the Issuer and the Guarantor shall comply with such other and/or, as appropriate, additional pre-condition(s).

A certificate from any two Directors of the Issuer or the Guarantor (as applicable) to the Trustee confirming compliance with the relevant conditions referred to in this paragraph (iii) shall be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties. The Trustee shall be entitled to accept such certificate as sufficient evidence of such compliance and shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(i) Compliance with stock exchange rules

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

(j) Purchases

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

(k) Cancellations

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

9 Restrictions following Deferral of Interest or Principal

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

(i) none of the Guarantor, the board of directors of the Guarantor nor any committee thereof shall resolve on, or publicly declare, any distribution to members which distribution falls within the 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 arrears of interest and 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 own funds of the Guarantor or the Insurance Group.

10 Taxation

(a) Payment without withholding

All payments of principal, interest, Arrears of Interest and any other amounts 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, in respect of payments of interest (including Arrears of Interest, and payments of Guaranteed Amounts in respect of interest and Arrears of Interest), but not principal or any other amount (or Guaranteed Amounts in respect of principal or any other amount), 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 (where presentation is required under these Conditions) 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.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer or by the Guarantor pursuant to the Guarantee will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an

intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). None of the Issuer, the Guarantor or any other person will be required to pay any additional amounts in respect of FATCA Withholding.

"**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 in respect of interest (including Arrears of Interest, and payments of Guaranteed Amounts in respect of interest and Arrears of Interest) payable in respect of the Notes or the Guarantee 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 prove in winding-up proceedings in respect of the Issuer is limited to proving and/or claiming in an Issuer Winding-Up in circumstances where a Guarantor Winding-Up has also occurred or is occurring. Neither the Noteholders nor the Trustee on their behalf have the right to institute winding-up proceedings of the Issuer.

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

(i) *Issuer non-payment*: If (1) neither an Issuer Winding-Up nor a Guarantor Winding-Up has occurred or (2) an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring and, in either case, the Issuer is in default in the payment of any interest (including any Arrears of Interest) or of any principal due in respect of the Notes or any of them, then the Trustee and the Noteholders may, in accordance with Condition 3(*b*) and the terms of the Guarantee, but subject also to Conditions 3(*c*), 6(*a*), 6(*b*) and 8(*b*), claim under the

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

(ii) *Issuer Winding-Up together with Guarantor Winding-Up*: If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and the Noteholders may claim under the Guarantee for the Guaranteed Amounts and the Trustee at its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction):

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

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

(iii) *Guarantor non-payment 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 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. The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

(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 or is unable to do so within 60 days and such failure or inability 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 earlier of (i) the second day after being so mailed and (ii) 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 shall, at the request of the Issuer and the Guarantor, agree with the Issuer and the Guarantor, without the consent of the Noteholders:

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

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

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

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

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

(2) the Substituted Obligor delivers to the Trustee one or more legal opinions addressed to the Trustee, the Issuer and the Guarantor in a form approved by, and provided to, the Trustee that (i) it has obtained all necessary governmental and regulatory approvals and consents necessary for its assumptions of the duties and liabilities as Substituted Obligor under the Trust Deed and (in the case of (i) and (ii) above) the Notes in place of the Issuer or the Guarantor (as applicable) or, as the case may be, any previous Substituted Obligor and (ii) such approvals and consents are at the time of substitution in full force and

effect. The Trustee may rely absolutely on such legal opinions without liability to any person and without any obligation to verify or investigate the accuracy thereof;

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

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

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

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

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

16 Meetings of Noteholders, Modification, Waiver and Authorisation

(a) Meetings of Noteholders

Any modification to these Conditions or any provisions of the Trust Deed will be subject to the Issuer or the Guarantor satisfying the Regulatory Clearance Condition.

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the 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.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of not less than 75 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.

An Extraordinary Resolution passed at any duly convened and held meeting of the Noteholders or by way of a written resolution will be binding on all Noteholders, whether or not they are present at the meeting or (as the case may be) whether or not they execute the written resolution.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or variation of the Notes pursuant to Condition 8(*e*) or 8(*f*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or the Guarantor pursuant to Condition 15.

(b) Modification, waiver, authorisation and determination

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

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

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

(d) Notification to the Noteholders

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 16 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be

notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

17 Transfer of Business of the Guarantor

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

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

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

the Guarantor shall procure that, subject to receiving the prior approval of the PRA, there be included in the transfer, all the liabilities and obligations of the Guarantor as obligor under the Guarantee and references in these Conditions and the Trust Deed to the Guarantor shall be construed accordingly. Any such transfer may be made without prior approval from the Trustee or the Noteholders, but is without prejudice to any statutory right of the Trustee or the Noteholders to raise objections in respect of any such transfer.

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

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

(a) Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer, the Guarantor and the Noteholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

(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 shall be constituted by a deed supplemental to the Trust Deed.

The Issuer shall only issue further notes which are to be consolidated and form a single series with the outstanding Notes if it is content that (i) such further notes will upon issue qualify as Tier 2 Capital of the Guarantor and the Insurance Group and (ii) the outstanding Notes will continue to qualify as Tier 2 Capital of the Guarantor and the Insurance Group following the issuance of such further notes and their consolidation to form a single series with the outstanding Notes.

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

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

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

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

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

a "**Capital Disqualification Event**" shall be deemed to have occurred if at any time as a result of any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so) the whole or any part of the principal amount of the Notes is excluded from counting as Tier 2 Capital for the purposes of 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);

"**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;

"**First Reset Date**" means 7 October 2039;

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

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

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

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

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

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

"**Initial Margin**" means 4.10 per cent.;

"**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 Guarantor (acting reasonably) has determined that 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 Relevant Rules;

"**Interest Calculation Agent**" means the interest calculation agent to be appointed and maintained by the Issuer in the circumstances set out in Condition 5(*f*);

"**Interest Payment Date**" means 7 October in each year from (and including) 7 October 2020;

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

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

"**Issue Date**" means 7 October 2019;

"**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 (as amended) 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;

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

"**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;

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

"**Parity Creditors**" means creditors of the Guarantor whose claims (including claims in respect of any guarantee given by the Guarantor) rank, or are expressed to rank, *pari passu* with the claims of the Noteholders (or the Trustee on their behalf) under the Guarantee, 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;

"**policyholder**" means, in respect of a contract of insurance, each policyholder specified in that contract of insurance and any other beneficiaries of that contract of insurance, all as determined in accordance with that contract of insurance and applicable law and regulation;

"**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 unit-linked policyholders of the Guarantor which allows each such eligible policyholder 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 investment bank, financial institution or other independent adviser of recognised standing, and provided that a certification to such effect (including as to the consultation with the investment bank, financial institution or other independent adviser 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 amendment or issue (as the case may be) of the relevant securities);

(b) (subject to (a) above) they shall (1) contain terms which comply with then current requirements of the Relevant Rules in relation to Tier 2 Capital; (2) bear 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 from the Guarantor 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

(c) are listed or admitted to trading on the London Stock Exchange's regulated market or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

"**Rating Agency**" means S&P Global Ratings Europe Limited or Moody's Investors Service Limited or, in either case, any successor thereto;

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

(a) Qualifying Dated Tier 2 Securities; and

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

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

"**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);

"**Reference Date**" means, at any time, the later of (i) the Issue Date and (ii) if any further tranche(s) of the Notes has or have been issued pursuant to Condition 19 and consolidated to form a single series with the Notes, the date of issue of the then-latest such tranche of Notes as at such 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 the PRA having confirmed its non-objection 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 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 Tier 2 Capital of the Guarantor and the Insurance Group) 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 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 Tier 2 Capital of the Guarantor and the Insurance Group) 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, at any time, any legislation, rules or regulations (whether having the force of law or otherwise) in the jurisdiction of the PRA and applicable to the Guarantor or the Insurance Group (including, without limitation and to the extent then applicable as aforesaid, Solvency II and any legislation, rules or regulations implementing 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;

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

"**Reset Period**" means the period from (and including) the First Reset Date to (but excluding) the next succeeding Reset Date and each successive period from (and including) a Reset Date to (but excluding) the next following Reset Date;

"**Reset Rate**" means, with respect to a Reset Period, the Reset Reference Rate in respect of the Reset Date on which such Reset Period commences, plus the Initial Margin plus the Step-Up Margin (converted by the Interest Calculation Agent from a semi-annual to an annual basis in a commercially reasonable manner);

"**Reset Reference Banks**" means five brokers of gilts and/or gilt-edged market makers selected by the Issuer or the Guarantor;

"**Reset Reference Rate**" means, in respect of a Reset Date, the gross redemption yield (as calculated by the Interest Calculation Agent on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for Calculating Gilt Prices from Yields*", page 5, Section One: Price/Yield Formulae "Conventional Gilts"; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date (published 8 June 1998, as amended on 15 January 2002 and 16 March 2005 and as further amended, updated, supplemented or replaced from time to time) or if such basis is no longer in customary market usage at such time, in accordance with generally accepted market practice at such time, on a semi-annual compounding basis (rounded up (if necessary) to four decimal places) of the Benchmark Gilt, with the price of the Benchmark Gilt for the purpose of determining the gross redemption yield being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent.) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the date falling two Business Days prior to that Reset Date on a dealing basis for settlement on the next following dealing day in London. Such quotations shall be obtained by or on behalf of the Issuer or the Guarantor and provided to the Interest Calculation Agent. If at least four quotations are provided, the Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Rate will be determined by reference to the rounded quotation provided. If no quotations are provided, the Reset Reference Rate will be, 0.876 per cent., where:

> "**Benchmark Gilt**" means such United Kingdom government security customarily used in the pricing of new issues with a similar tenor having a maturity date on or about the next following Reset Date as the Issuer or the Guarantor (on the advice of an investment bank of international repute or independent adviser of recognised standing and appropriate expertise) may determine to be appropriate following any guidance published by the International Capital Market Association at the relevant time (if any); and
>
> "**dealing day**" means a day on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

"**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 (including in respect of any unsubordinated guarantee given by 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 or Tier 2 Capital or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, any claims of the Noteholders (or the Trustee on their behalf) under the Guarantee);

"**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);

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

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

"**Step-Up Margin**" means 1.00 per cent.;

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

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

"**Subsequent Rating Agency**" means Fitch Ratings Limited or any other credit rating agency (other than a Rating Agency) or, in either case, any affiliate thereof or successor thereto that assigns "equity credit" (or such other nomenclature as may be used by such rating agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer's senior obligations in terms of either leverage or total capital) to the Notes after the Issue Date;

"**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 to it for the purposes of the Relevant Rules from time to time;

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

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

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 such Alternative Clearing System (as the case may be) for its share of each payment made by or on behalf of the Issuer or the Guarantor to (or to the order of) 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 (or to the order of) 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 only if each of Euroclear and Clearstream, Luxembourg (and, if applicable, 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, and no successor or Alternative Clearing System satisfactory to the Issuer is available.

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.

Principal and interest shall be payable in accordance with the Conditions, save that the calculation of interest will be made in respect of the total aggregate principal amount of the Notes represented by 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 being two persons and 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 one or more clearing systems, notices to Noteholders will be given by delivery of the relevant notice to each relevant 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 each of the relevant clearing systems 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 75 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 AND ESTIMATED NET AMOUNT OF PROCEEDS

The estimated net proceeds of the issue of the Notes, after deduction of commissions, fees and estimated expenses, will be £585,096,000 and it is intended that the net proceeds 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 £5,515.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in England and Wales on 3 September 2019 under the Companies Act 2006 (as amended) and registered in England and Wales with registered number 12187449.

The registered office of the Issuer is at 55 Gracechurch Street, London EC3V 0RL and its telephone number is 020 3272 5000. The Issuer has issued 50,000 ordinary shares all of which are fully 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 and Estimated Net Amount of Proceeds*" above.

Directors

Name	Function
Martin Lewis, Finance, Chief Operating Officer	Director
Andrea Montague, Deputy Group Finance Director	Director

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

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 (£1 of which is paid up)	50,000

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 2019. 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 020 3272 5000. 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 8.7 million customers and £114 billion in funds under management as at 31 December 2018 (30 June 2019: £130 billion).

The Group offers a wide variety of long-term products, including pensions, protection and investments, and acts as an intermediary in distributing non-investment insurance products to its customers. The majority of amounts received from policyholders are invested and managed by the Group's asset management company, Royal London Asset Management ("**RLAM**"). RLAM 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.

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 and administration, investment income and realised 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 will 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 Main (Open) Long-Term 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**")).

Discretionary ProfitShare

In 2007, the Guarantor started allocating a proportion of the profits earned by the Group to certain qualifying with-profits policyholders through a 'profit share'. This increases the underlying value of the with-profits policies, leading ultimately to higher claim values.

The discretionary level of allocation is reviewed and approved by the Board and is subject to prior regulatory notification.

On 7 October 2015, the Guarantor expanded this "ProfitShare[1]" arrangement ("**ProfitShare**") to allocate a proportion of the Group's profits to certain qualifying unit-linked pension policies. To ensure that existing with-profits policyholders were not adversely affected by this expansion of ProfitShare, the allocation to unit-linked policies was initially set at 1/8th of the rate applicable to with-profits policies. This discretionary rate is reviewed annually.

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. The Group's ProfitShare takes into account its EEV operating profit and its capital strength. Following the adoption of UK GAAP (see "*Risk Factors – Risks relating to the Group*", risk factor 3.6), a consistent method of calculation will be adopted. For 2018, ProfitShare was £150 million (2017: £142 million). Around half of the value in 2018 went to with-profits policies and half to unit-linked policies. With-profits policies received an allocation equivalent to 1.4 per cent. of the policy value (2017: 1.4 per cent.). The enhancement to the unit-holdings of eligible unit-linked pension customers was 0.18 per cent. in 2018 (2017: 0.18 per cent.). Since 2007, £942 million in aggregate has been added to the value of eligible with-profits and unit-linked customers.

Recent Developments

The unaudited half year results of the Guarantor for the six months ended 30 June 2019 were published via RNS on 12 August 2019 and 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 comprises the Royal London Main Fund (also referred to as the Royal London Open Fund or the RL Long Term Fund) and the Closed Sub-Funds arising from businesses acquired. All new business is written into the Royal London Open Fund, with RLAM selected to manage the majority of the assets.

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. In common with many in the industry, the Guarantor reports two key metrics: an 'investor view' for analysts and investors in its subordinated debt, which does not restrict the surplus in the closed funds, and a 'regulatory view' where the closed funds' surplus in excess of the SCR is excluded from total own funds, which is known as the closed funds restriction. The closed fund surplus does, however, act 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

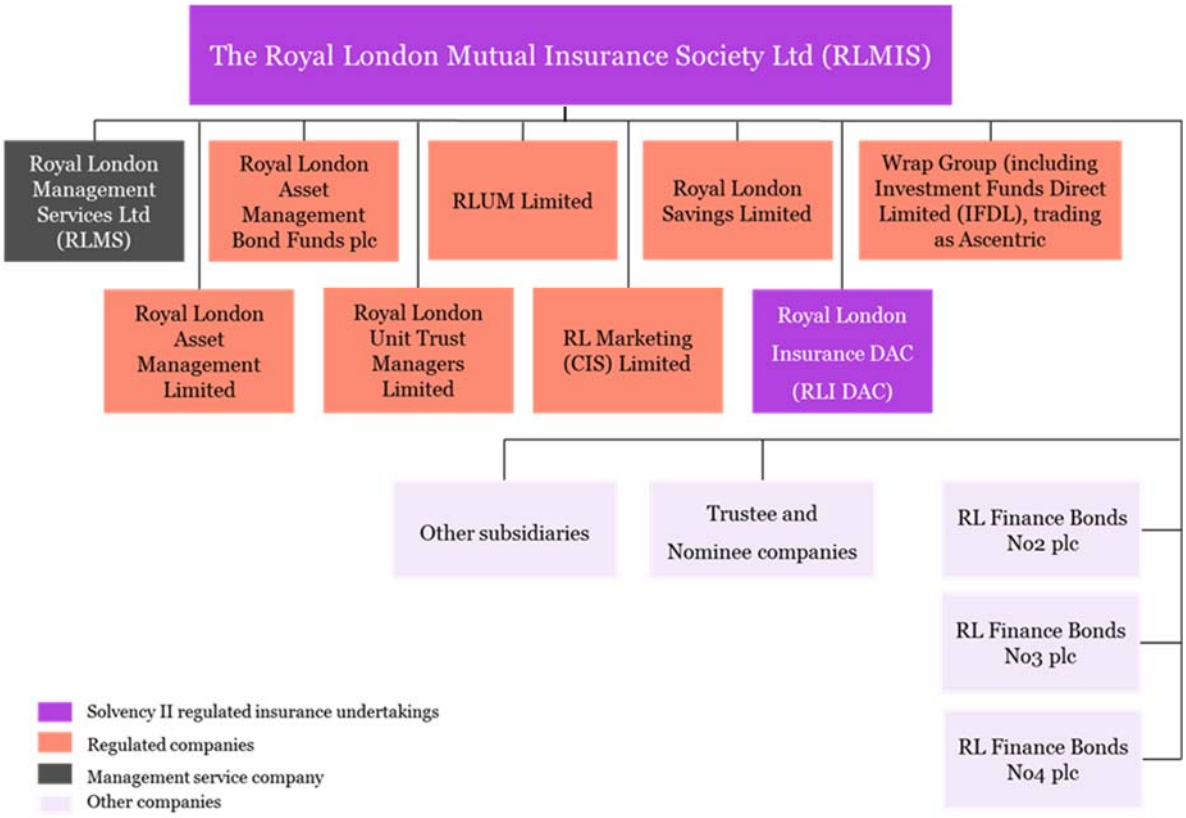
The Guarantor is the ultimate holding company of the Group. The following table shows the principal operating subsidiaries of the Guarantor, being those which are considered to be most likely to have a significant effect on

[1] ProfitShare is an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.

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 Management Services Limited	England	100	Service company
Royal London Asset Management Limited	England	100	Investment management
Royal London Asset Management Bond Funds plc	England	99	Investment management
Royal London Unit Trust Managers Limited	England	100	Unit trust manager
RLUM Limited	England	100	Unit trust manager
RL Marketing (CIS) Limited	England	100	ISA manager
Royal London Savings Limited	England	100	ISA manager
Royal London Insurance Designated Activity Company	Ireland	100	Regulated insurance provider
RL Finance Bonds No.2 plc	England	100	Finance company
RL Finance Bonds No.3 plc	England	100	Finance company
RL Finance Bonds No.4 plc	England	100	Finance company
Investment Funds Direct Limited	England	100	Wrap platform management

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



The Group's history

General

The growth of the Group has encompassed a mixture of organic growth and strategic acquisitions, which can be summarised as:

- The RLAM business was established in 1988.
- United Assurance Group plc was acquired 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.
- Scottish Life and its subsidiaries (including Scottish Life International) was acquired 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.
- Bright Grey was launched in 2003, a business specialising in protection insurance.
- Investment Funds Direct Limited and Investment Sciences Limited, now the Group's Ascentric business, were acquired in 2007.
- 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 were acquired in 2008.

- Royal London 360° was established in 2008 (and was launched in 2009).
- Royal Liver Assurance Limited and its subsidiaries were acquired in 2011.
- The life and pensions business and asset management businesses of the Co-operative Group, namely CIS and The Co-operative Asset Management, were acquired in 2013.
- Royal London 360° and its subsidiaries were disposed in 2013 through a private-equity supported management buyout.
- The Royal London General Insurance Company Limited ("**RLGI**") was disposed in 2016. RLGI had been in run-off since 1999.
- The RLAM Channel Islands and the Royal London Custody Services CI Limited businesses were disposed in 2018.
- An Irish insurance subsidiary, RLI DAC, was incorporated on 11 July 2018 with regulatory permissions effective from 1 January 2019.

As a result of a mixture of organic growth and strategic acquisitions, the Group's customer base has increased in recent years, which has enabled it to achieve significant cost synergies on an on-going basis. The Group remains open to the possibility of future acquisitions, which remains part of the Group's strategy.

Recent significant events

Internal Model Approval

The Group received approval from the PRA to use the Solvency II Internal Model on 20 September 2019 for the calculation of the consolidated group SCR as well as for the solo entity SCR of the Guarantor. The Guarantor needs to include the risks relating to RLI DAC in its SCR calculation (both solo and Group) and, given that it does not use its internal model to do this, the Solvency II Internal Model is considered to be 'partial' (rather than 'full').

Further details are found within the "*Capital Strength*" section below.

Part VII Transfer effected in 2019

Following the referendum vote in favour of the UK leaving the EU in 2016, the Guarantor took the decision to establish an authorised insurance company in Ireland. This enables the Group to continue to sell new business in Ireland regardless of the outcome of Brexit and enables certain Irish and German life insurance business previously underwritten by the Guarantor to continue to be serviced. The new subsidiary, RLI DAC, was authorised to write new life insurance business in Ireland by the CBI with effect from 1 January 2019.

Certain technical provisions and related assets and liabilities were transferred from the Guarantor to RLI DAC by way of a transfer made under Part VII of the Financial Services and Markets Act 2000 (the "**Part VII transfer**"). Following High Court approval the Part VII transfer took place on 7 February 2019, but was deemed for accounting purposes to have taken effect on 1 January 2019.

The contracts transferred were:

- The protection contracts written in Ireland by the Guarantor since 1 July 2011 ("**Ireland Protection contracts**");
- The contracts which were originally written in Ireland by:

- Royal Liver Assurance Limited, Caledonian Life and Irish Life Assurance plc, subsequently transferred to the Guarantor on 1 July 2011 by way of a scheme of transfer under section 86 of the Friendly Societies Act 1992; and
- GRE Life Ireland Limited, transferred to the Guarantor on 1 July 2012 by way of a scheme of transfer under the Assurance Act 1909 and European Communities (Life Assurance) Framework Regulations 1994 (together the "**Ireland Liver contracts**"); and

- The German bond contracts previously written by the Guarantor ("**German bond contracts**").

Financial assets of £927 million and liabilities of £811 million were transferred resulting in an excess of assets over liabilities of £116 million in RLI DAC.

Immediately following the Part VII transfer, two new internal reassurance arrangements were effected to reinsure all of the Ireland Liver contracts and German bond contracts from RLI DAC back to the Guarantor. The Ireland Protection contracts are not part of these internal reinsurance arrangements.

To provide security for each of the new reinsurance arrangements, the Guarantor entered into fixed and floating charges, supported by collateral framework arrangements with RLI DAC. There are four fixed charges in total, two of which relate to the reinsurance agreement in respect of the Ireland Liver contracts and two of which relate to the reinsurance agreement in respect of the German bond contracts. The first fixed charge in respect of each reinsurance agreement (the "**Tier 1 charge**"), secures obligations up to an amount equal to 50% of the Solvency II Best Estimate Liabilities ("**BEL**"). The second fixed charge in respect of each reinsurance agreement (the "**Tier 2 charge**"), secures the remaining 50% of the BEL (so that in total, the Tier 1 charge and Tier 2 charge make 100% of the BEL of the reinsured business). The Tier 2 charge however contains equalisation provisions to ensure equal treatment of UK and the policyholders with Ireland Liver contract / German bond contract policyholders in the event of Guarantor insolvency, effectively limiting the amount recoverable under the Tier 2 charges. In addition, there is an insolvency floating charge over the assets of the Guarantor (excluding c. £3 billion of unit-linked funds which are already secured to third parties).

The floating charge is designed to align the reinsured debt with the insurance debt, therefore protecting the Irish and German policyholders against the risk of unequal treatment in case of insolvency of the Guarantor.

The Royal London GAR Compromise Scheme (the "Scheme")

Prior to implementation of the Scheme, a number of policies within the Scottish Life Fund included a guarantee known as a guaranteed annuity rate ("**GAR**"). GAR enabled policyholders to purchase an annuity at a guaranteed rate as opposed to the market rate, provided an annuity was taken through the Guarantor. The Scheme provided eligible policyholders with an uplift to their retirement savings without the restriction of having to take out an annuity through the Guarantor.

On 7 November 2018 legal approval was obtained for the Scheme. Under the Scheme the fund value of certain policies, together with certain future regular premiums, has been uplifted in exchange for the removal of the policies' GAR. The Scheme's effective date was 7 December 2018. Of the 31,959 eligible plans, with an aggregate GAR value of approximately £520 million, 27,034 have had their GARs removed and their plan values uplifted. The remainder retained their GARs.

Board and Leadership changes

In November 2018, Jon Macdonald announced his decision to retire as Group Risk Director in April 2019. The Group Nomination Committee undertook a rigorous search process, led by an external recruitment specialist. The Board decided to appoint James McCourt as Chief Risk Officer.

In December 2018, Rupert Pennant-Rea announced his departure as Chairman of the Board after over five years of service to Royal London. Following a robust and extensive search process, the Board selected Kevin Parry OBE as the Group's Chairman. Mr Parry was appointed Chairman on 19 March 2019.

In December 2018, Phil Loney announced he was stepping down from his role as Group Chief Executive after more than seven years' service. Following a rigorous search, the Board selected Barry O'Dwyer as the Group Chief Executive. Mr O'Dwyer joined Royal London on 23 September 2019.

In August 2019, it was announced that Tim Harris was stepping down from his role as Deputy Chief Executive and Group Finance Director. An extensive recruitment process will be undertaken by the Group Nomination Committee for a new Group Finance Director now that Mr O'Dwyer has joined the Group. In the intervening period, a senior partner from Deloitte is fulfilling the functions of a Group Finance Director.

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. The Group's vision is to become the most trusted and recommended provider in its chosen markets by creating the best customer and member outcomes and experiences.

One of the key differentiating factors of the Guarantor is its mutual status, which is core to its strategy. As a mutual with strong existing customer propositions, the Group is well-placed to deliver a unique value for money strategy. Its business model is central to driving its strategy and the Group makes effective use of its resources and relationships to create long-term and sustainable value for all its stakeholders.

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

Organisational business units

The Group operates in the pensions, protection and wealth management markets. It partners with advisers and their clients, and directly with its members and customers to deliver long-term growth and income. The Group is structured into four Divisions:

- The **Asset Management** Division which manages £130 billion at 30 June 2019 (31 December 2018: £114 billion) in funds for the Group's policyholders and external clients. RLAM's external fund range includes but is not limited to:
    - RL Cash Plus Fund;
    - RL Sterling Extra Yield Bond Fund;
    - RL Sterling Credit Fund;
    - RL UK Equity Income Fund;
    - RL Short Duration Global High Yield Bond Fund;
    - RL Pooled Pension Company UK Corporate Bond Fund;
    - RL Short Duration Credit Fund; and

- RL Sustainable Leaders Trust.

- The **Intermediary** Division which works with independent financial advisers and intermediaries to bring its protection and pension products to their clients in the UK and Ireland. The products sold include but are not limited to:
  - Individual Pensions;
  - Workplace Pensions;
  - At retirement products;
  - Life cover;
  - Critical illness cover; and
  - Income Protection.

- The **Consumer** Division which sells insurance and protection products directly to consumers in the UK who cannot access or do not want financial advice, and through the Group's network of partnerships with other corporates. Products sold include but are not limited to:
  - Over 50s plans;
  - Term assurance; and
  - Funeral plans.

- The **Legacy** Division which manages the Group's operations that are closed to new business, including its closed life funds. The division aims to generate good value for 6 million long-standing customers through efficient operational and capital management.

Asset Management - Royal London Asset Management (RLAM)

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.

RLAM aims to maintain its focus on providing high quality investment management for the Group, as well as growing external funds under management. In recent years RLAM has increased the breadth of its product offering, building a range of investment capabilities such as UK & Global equities, High Yield, multi-asset, sustainable and passives. It will continue to build its reputation as a leading provider across all asset classes.

	Gross flows		Net flows	
	2018	**2017**	**2018**	**2017**
	£m	*£m*	*£m*	*£m*
Internal flow	8,879	8,456	3,552	3,514
External flow	12,317	10,396	4,100	2,802
Total	21,196	18,852	7,652	6,316

Net flows of £7,652 million in 2018 (2017: £6,316 million) include internal net inflows of £3,552 million (2017: £3,514 million) and external net inflows of £4,100 million (2017: £2,802 million). Higher net inflows were

driven by increased Individual Pension sales, with external net inflows increasing due to RLAM's success in winning a number of large new mandates during the year.

For comparative purposes, the gross and net flow amounts at HY19 and HY18 are also presented below:

	Gross flows		Net flows	
	HY19	**HY18**	**HY19**	**HY18**
	£m	*£m*	*£m*	*£m*
Internal flow	4,478	4,597	1,540	1,952
External flow	8,140	4,992	3,933	2,225
Total	12,618	9,589	5,473	4,177

The increase in net flows of external business to £3,933 million was due to large institutional scheme wins and strong demand in the wholesale sector for RLAM's range of credit and sustainable funds, partially offset by higher outflows primarily from cash funds.

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

Asset class	**31 December 2018**	**31 December 2017**
	£bn	*£bn*
Fixed Income	56.8	52.9
Equities	34.1	36.3
Property	7.5	6.7
Cash	11.7	13.5
Other	3.8	4.2
Total	113.9	113.6

Product type	**31 December 2018**	**31 December 2017**
	£bn	*£bn*
Pension & other institutional	19.6	24.1
Unit Trusts and OEICs	51.7	47.6
Unit-Linked Life & Pension	16.1	14.2
With-profits	22.8	26.8
Tax Transparent Fund	2.9	—
General insurance	0.8	0.9
Total	113.9	113.6

Positive net inflows and positive investment returns in the six-month period to 30 June 2019 resulted in RLAM assets under management of £130 billion. The investment performance was strong with 97 per cent. of active funds outperforming their benchmark over a three-year period.

RLAM continues to win a broad range of industry awards at firm and fund level, accumulating 24 awards in 2018. These included the prestigious Financial News European Asset Management award for Asset Manager of the Year – Mid Size in October 2018.

Royal London Group investments

The Board sets the Group's investment policy and strategy. The majority of 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 for the Royal London Main Fund and the Closed Sub-Funds. Funds are invested and benchmarks set with the view of maximising the long term return on investments whilst recognising the need to meet commitments to policyholders (including any guarantees) as well as maintaining the Estate at the target size. The Directors of the Group may group liabilities into separate pools and the investment strategy for each such pool may be determined separately. The funds invest in a wide range of assets. In determining the mix of assets between different asset classes, the investment strategy will take into account the proportionate size of the Estate, the fund's ability to meet its ongoing capital requirements in all reasonably foreseeable circumstances, the long term expected return available from each asset category and the observed and expected market volatility of each asset class.

The Guarantor's Capital Management Committee and Investment Committee monitor the actual asset allocations 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 2018:

	Group	
	2018	**2017**
	£m	*£m*
Derivatives		
Unquoted	3,171	4,262
Total financial investments classified as held for trading	3,171	4,262

	Group	
	2018	**2017**
	£m	*£m*
Equity securities		
Quoted	27,165	28,529
Unquoted	416	441
	27,581	28,970
Debt and fixed-income securities		
Government bonds	14,968	15,444
Other quoted	19,865	17,402
Loans secured by policies	3	4
Deposits with credit institutions	5,280	5,126
Other unquoted	2,983	3,166
	43,099	41,142
Other investments		
Unit trusts and other pooled investments	8,716	8,954
Total financial investments designed as FVTPL	79,396	79,066

In order to minimise its exposure to credit risk, the Group invests primarily in higher graded assets, rated BBB or above. The Group also makes use of collateral arrangements in respect of its derivative exposures and stock lending activity, wherever possible.

As disclosed in the table of total assets under management by asset class above, as at 31 December 2018, 60 per cent. of the Group's asset portfolio was invested in fixed income investments and cash, compared to 58 per cent. at 31 December 2017.

As at 31 December 2018, the Group's exposure to the sovereign debt of Italy and Spain was less than 1 per cent. of total sovereign debt exposure (2017: less than 1 per cent.). The Group had no exposure to the sovereign debt of Greece, Portugal, Argentina or Turkey.

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

	Group	
	2018	**2017**
	£m	*£m*
UK	13,368	10,938
Germany	127	101
France	178	156
Belgium	46	42

	Group	
	2018	**2017**
	£m	*£m*
Other Europe	205	155
USA	223	60
Japan	92	11
Rest of World	34	26
Total	14,272	11,489

Intermediary Division

The Intermediary Division distributes long-term savings and protection products via financial advisers to their clients. The Group sells individual pensions and drawdown and group pensions in the UK. It also sells individual protection policies in the UK and also in Ireland through RLI DAC.

Pensions

The Group provides a range of pension products and services to both individual customers and to employers with pension schemes and their scheme members, through intermediaries in the UK. Products offered by Royal London Pension's Division 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;
- income drawdown, through the Income Release product which allows customers to enjoy flexible access to their pension savings; and
- Workplace pensions, including propositions for defined contribution customers (the Retirement Solutions product).

The Group currently reports externally on an EEV basis. As outlined in "*Risk Factors – Risks relating to the Group*", risk factor 3.6, the Group expects and plans to move to UK GAAP from 1 January 2020. The below terms are used when reporting the Group performance under EEV:

- Present value of new business premiums ("**PVNBP**") – The PVNBP is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contracts sold in the year;
- New business contribution ("**NBC**") – NBC is the expected present value on the EEV basis of reporting of all cash flows arising from new business; and
- New business margin ("**NBM**") – The new business contribution as a percentage of the present value of new business premiums.

The Pensions new business sales are presented below:

	PVNBP		New business contribution		New business margin	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	%	%
Pensions	10,042	10,787	239.1	241.6	2.4	2.2

Following completion of auto-enrolment roll-out, Pension new business sales on a PVNBP basis have increased by 125 per cent. over a five-year period (£4,454 million in 2014 to £10,042 million in 2018).

Protection

The Group sells protection products in the UK and also in Ireland.

The Protection new business sales are presented below:

	PVNBP		New business contribution		New business margin	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	%	%
Protection	847	807	45.1	43.1	5.3	5.3

Protection sales have increased by 151 per cent. in the five-year period to 2018 (£338 million in 2014 to £847 million in 2018).

UK Protection

Products offered in the UK include:

- individual protection, through the Personal Menu Plan, which allows customers to choose from a range of covers and benefits (life, critical illness, life or critical illness, children's critical illness, income protection and waiver of premium cover) with different sums assured and plan terms to tailor protection for different needs and budgets;
- specialised cover, through the Diabetes Life Cover Plan;
- whole of life cover, through the Pegasus Plan, designed for clients thinking about inheritance tax, providing for their families after they are gone or making sure their businesses are protected against their death;
- business protection, through the Business Menu Plan, from which customers can choose a range of covers for business loans or to protect against the loss of a key person, partner, member or shareholding director; and
- Relevant Life Plan, which allows employers to give death-in-service benefits to their employees outside of a registered group life scheme.

Ireland Protection

Royal London Ireland (which was previously Caledonian Life) was the Group's business unit providing protection products to 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 2014. As part of its Brexit contingency planning the Group incorporated an Irish insurance subsidiary, RLI DAC, on 11 July 2018 with regulatory permissions effective from 1 January 2019.

RLI DAC's new business sales include life term assurance, mortgage protection, specified serious illness cover, income protection, pension term assurance, and whole of life cover. RLI DAC also sells business assurance, including key person insurance, partnership insurance, co-director insurance and corporate co-director insurance.

Consumer Division

In 2014, the Guarantor established its new Consumer Division which brought together existing operations under a 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.

The Consumer Division sells new non-advised direct product and service propositions to the public directly, and through partnerships with like-minded companies. Key partners include the Post Office, Co-operative Funeralcare and Co-op, Ecclesiastical Insurance and Clydesdale and Yorkshire Bank.

The Consumer new business sales are presented below:

	PVNBP		New business contribution		New business margin	
	2018	2017	2018	2017	2018	2017
	£m	*£m*	*£m*	*£m*	*%*	*%*
Consumer	419	408	(3.3)	(5.3)	(0.8)	(1.3)

Capital management

Royal London Long-Term Fund

The fund structure of the Guarantor as at 31 December 2018 is illustrated as follows:

<table>
<tr><td colspan="6">The Royal London Mutual Insurance Society Limited</td></tr>
<tr><td>Royal London (CIS) Sub-Fund</td><td colspan="2">Royal London Main (Open) Fund</td><td>Scottish Life Closed Fund</td><td>PLAL With-Profits Sub-Fund</td><td>Royal Liver Sub-Fund</td></tr>
<tr><td colspan="6">Comprises of:</td></tr>
<tr><td>RLCIS ESTATE</td><td colspan="2">Royal London ESTATE</td><td>Scottish Life ESTATE</td><td>PLAL ESTATE</td><td>Royal Liver ESTATE</td></tr>
<tr><td rowspan="2">RLCIS OB & IB Fund</td><td colspan="2">Royal London OB</td><td rowspan="5">Scottish Life Business</td><td rowspan="5">PLAL Business</td><td rowspan="5">Royal Liver Business</td></tr>
<tr><td colspan="2">Royal London IB</td></tr>
<tr><td rowspan="2">RLCIS With-Profits Pension Fund</td><td colspan="2">Refuge Assurance OB</td></tr>
<tr><td>United Friendly IB and additional account</td><td rowspan="2">United Friendly OB and additional account</td></tr>
<tr><td>RLCIS With-Profits Stakeholder Fund</td><td>Refuge Assurance IB and additional account</td></tr>
</table>

Total assets by fund are shown in the table below. Figures quoted are asset balances within the funds as at 31 December 2018, and do not represent total funds under management (£114 billion at 31 December 2018).

	2018	2017
	£bn	*£bn*
Royal London Open Fund	53.3	49.7
RL (CIS) Sub-Fund	28.3	31.1
Scottish Life Closed Fund	2.4	3.2
Royal Liver Sub-Fund	2.1	2.3
United Friendly Ordinary Business (OB)	2.7	2.8
United Friendly Industrial Business (IB)	1.1	1.2
Phoenix Life (PLAL) With-Profits Sub-Fund	0.6	0.7
Refuge Assurance IB	0.2	0.3

The Royal London Long-Term 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, PLAL, Royal Liver and RL (CIS) sub-funds are ring-fenced and not part of the Royal London With-Profits Fund.

The Royal London Open Fund is entitled to a portion of the surplus in a number of the closed funds. In addition, rate card agreements are in place between the Royal London Open Fund and the Closed Sub-Funds concerning the ongoing administration and run costs.

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 surpluses 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.

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 Solvency II capital basis. Throughout 2018 and 2019 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 combined surplus on the three schemes on an IAS 19 measurement basis under IFRS increased by £27 million to £213 million at 31 December 2018 (2017: surplus of £186 million).

The main defined benefit for the Group is the RLGPS. On 1 September 2005, RLGPS was closed to new entrants and to future accrual of benefits on 31 March 2016. The surplus on the RLGPS pension scheme increased to £74 million at 31 December 2018 (2017: £47 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. The combined Royal Liver schemes' surplus as at 31 December 2018 was £139 million (2017: £139 million surplus).

The Group has established a defined contribution scheme for new employees joining the Group after 1 September 2005.

Capital strength

Firms that are authorised to write insurance, such as the Guarantor and RLI DAC, are required under Solvency II to hold assets to meet their technical provisions and regulatory capital requirements. Technical provisions combine best estimate liabilities for the policies they have written and a Risk Margin net of the benefit of the Transitional Measures on Technical Provisions. The excess of assets over technical provisions is called "own funds", with specific rules about what types of asset are eligible and the proportion of own funds that each type

of eligible asset may represent. Such firms are also required to maintain sufficient own funds to meet the SCR under the Solvency II regime, under a standard formula or (if approved by the relevant prudential regulator) a Solvency II internal model basis. The Group uses the Solvency II Internal Model (as defined below) for the purpose of its Group calculation and solo calculations of the Guarantor and maintains capital at target levels over and above the SCR, in accordance with its stated risk appetite.

Royal London became a group for Solvency II reporting purposes following the authorisation of RLI DAC by the CBI with effect from 1 January 2019. Reporting under Solvency II therefore comprises:

- Guarantor (Solo);
- RLI DAC (Solo); and
- Guarantor (Group).

Solvency II Surplus

A Solvency II capital assessment involves a valuation in line with Solvency II principles of the own funds and a risk-based assessment of the SCR. The Group's own funds differ materially from the Group's IFRS unallocated divisible surplus for a number of reasons, including a number of valuation differences in respect of insurance contract liabilities and intangible assets. For further details on unallocated divisible surplus, see 'Note 1 (Accounting Policies)' to the financial statements of the Guarantor for the financial year ended 31 December 2018.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5 per cent. over one year. This ensures that capital is sufficient to withstand a '1-in-200 year event'.

On 20 September 2019, the PRA approved a Group and solo application to use the Solvency II Internal Model for the calculation of the consolidated Group SCR as well as for the solo entity SCR of the Guarantor. The approval is for a partial internal model for both the solo entity (the Guarantor) and the Group. The Guarantor and the Group commenced using the Solvency II Internal Model with effect from 1 October 2019.

In common with many in the industry, the Guarantor reports two key metrics: an 'investor view' for analysts and investors in its subordinated debt, which in the case of the Guarantor does not restrict the surplus in the closed funds, and a 'regulatory view' where the closed funds' surplus in excess of the SCR is excluded from total own funds, which is known as the closed funds restriction.

The previously reported capital position of the Guarantor and the Group as at 31 December 2018 is based on the standard formula approach (which remained applicable until 1 October 2019). The capital position based on the standard formula as at 31 December 2018 is set out in the RLMIS Solvency and Financial Condition Report 2018 which is incorporated by reference herein. All of the figures used below, including the sensitivity analysis, are instead calculated on the basis of the Solvency II Internal Model.

The Solvency II position of the Guarantor at 1 January 2019[2] is set out below on a solo and Group basis:

[2] As outlined in the 'Recent significant developments' section, the Part VII transfer was deemed for accounting purposes to have taken effect on 1 January 2019. The capital position presented here includes the impact of the Part VII transfer.

Guarantor solo basis at 1 January 2019	Open Fund	Closed funds	Guarantor Solo (Investor View)	Closed funds restriction	Guarantor Solo (Regulatory View)
	£m	*£m*	*£m*	*£m*	*£m*
Own funds					
Tier 1	3,405	4,611	8,016	—	8,016
Tier 2	806	—	806	—	806
Total own funds	**4,212**	**4,611**	**8,823**	**—**	**8,823**
Closed funds restriction	—	—	—	(2,835)	(2,835)
Adjusted own funds	**4,212**	**4,611**	**8,823**	**(2,835)**	**5,987**
SCR	**(1,917)**	**(1,776)**	**(3,693)**	**—**	**(3,693)**
Surplus	**2,294**	**2,835**	**5,130**	**(2,835)**	**2,294**
Cover ratio	**220%**	**260%**	**239%**	**n/a**	**162%**

Group basis at 1 January 2019	Group (Investor View)	Group (Regulatory View)
	£m	*£m*
Own funds		
Tier 1	7,980	7,980
Tier 2	806	806
Total own funds	**8,786**	**8.786**
Closed funds restriction	-	(2,832)
Adjusted own funds	**8,786**	**5,954**
SCR	**(3,860)**	**(3,860)**
Surplus	**4,926**	**2,094**
Cover ratio	**228%**	**154%**

The Guarantor's capital position is robust on both solo and Group bases, reflecting the strength of its underlying business and effective capital management strategies. The Open Fund had an excess surplus of £2,294 million at 1 January 2019 and a capital cover ratio of 220 per cent. The Closed Sub-Funds are also well capitalised with an excess surplus of £2,835 million at 1 January 2019 and a capital cover ratio of 260 per cent.

The majority (81 per cent.) of total own funds within the Open Fund is made up of Tier 1 Capital, with subordinated debt valued at £806 million at 1 January 2019 classified as Tier 2 Capital. Own funds within the Closed Sub-Funds are entirely Tier 1 Capital.

At 30 June 2019, the Guarantor had a solo investor view surplus of £5.1 billion and a cover ratio of 221 per cent. The solo regulatory view cover ratio was 156 per cent. and the Group regulatory view cover ratio was 150 per cent.

The sensitivity of the Group's Investor and Regulatory surplus for a number of financial scenarios is provided below, assuming the stress occurred on 1 January 2019 and that Transitional Measures on Technical Provisions would be recalculated under each scenario:

	1 January 2019	
	Group (Investor View)	**Group (Regulatory View)**
	£m	*£m*
Base:	**4,926**	**2,094**
Equity prices fall by 25%	4,504	1,780
Property prices fall by 25%	4,747	1,949
Interest rates rise by 100 basis points (bps)	4,728	2,069
Interest rates fall by 100 bps	5,154	2,087
Government bond spreads over EIOPA risk free rates rise by 50 bps	4,694	1,978
Credit spreads (all ratings) rise by 100 bps	4,823	2,065
Downgrade – the impact of 20% of assets by market value downgrading from the current Credit Quality Step (CQS) to the next CQS	4,921	2,093
Inflation – An increase in the market implied real interest rates over the nominal interest rates by a uniform 50 bps across the curve	4,853	2,066

Minimum Capital Requirement ("MCR")

The MCR is calculated on a monthly basis according to a formula prescribed by the regulations and is subject to a floor of 25 per cent. of the SCR or €3.7 million, whichever is higher, and a cap of 45 per cent. of the SCR. The MCR formula is based on factors applied to the technical provisions and capital at risk as at the point of calculation.

Before any cap/collar is applied, the MCR has been calculated at £181 million as at 31 December 2018. However, Solvency II regulations prescribe that the MCR has to fall within a range of 25 per cent. to 45 per cent. of the SCR. Hence the value of the Group MCR at 31 December 2018 is £965 million, consistent with the lower limit.

The previously reported capital position as at 31 December 2018 of the Guarantor and the Group is based on the standard formula approach (which remained applicable until 1 October 2019). The capital position based on the standard formula is set out in the RLMIS Solvency and Financial Condition Report 2018 which is incorporated by reference herein. All of the figures used above are instead calculated on the basis of the Solvency II Internal Model.

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 system is designed to identify, assess and control risks, and to manage and mitigate the risks of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The Group's system of governance comprises risk management, risk appetite, risk policies, internal control and monitoring activities, along with the internal environment, including the Group's philosophy, culture and behaviours. The Group has a formal governance structure of committees to manage risk, reporting to the Board, and accountability has been further strengthened through implementation of the Senior Managers & Certification Regime ("**SMCR**") in 2018 and 2019.

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. During 2018, and on an ongoing basis, the risk management system, in conjunction with the SCR, the Solvency II Internal Model, the risk register and the Own Risk and Solvency Assessment, was and continues to be 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.

Governance and risk management

The Group's governance structures for risk management are based on the 'three lines of defence' model. Primary responsibility for risk management lies with the business units and specialist operational process functions. A second line of defence is provided by the Group's independent Risk and Compliance function; specialist in nature, it undertakes monitoring, challenge and manages policy setting. The third line of defence is provided by Group Internal Audit, which provides independent assurance.

The Group has established committees and procedures for managing risks, including a Board Risk Committee, Audit Committee, Investment 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 customers and members of The Royal London Mutual Insurance Society Limited are properly protected through the application of effective risk and capital management frameworks. This includes overseeing the management of conduct risk to ensure customers receive the best experience and outcomes.

The Committee has a non-executive Chair. The Committee is comprised solely of independent non-executive directors. The Chairman attends meetings of the Committee, but is not a member of the Committee.

Audit Committee

The Audit Committee is a sub-committee of the Board. The role of the Committee is to assist the Board by monitoring the effectiveness, performance and objectivity of external and internal auditors, and monitoring and reviewing the adequacy and effectiveness of the Group's internal controls and the integrity and quality of financial reporting.

The Committee has a non-executive Chair. The Committee is comprised solely of independent non-executive directors. The Chairman attends meetings of the Committee, but is not a member of the Committee.

Investment Committee

The role of the Committee is to assist the Board in discharging of its responsibilities in respect of investment matters, including investment strategy, and in its oversight of the investment assets of the Company, including investment performance.

The Committee has a non-executive Chair. Other committee members are appointed by the Board on the recommendation of the Nomination Committee in consultation with the Committee Chairman.

Executive Risk Committee

The role of the Committee is to support the Group Chief Executive by giving consideration to, and developing proposals and recommendations in respect of, areas within the risk management system.

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

Capital Management Committee

The role of the Committee is to support the Group Finance Director by giving consideration to, and developing proposals and recommendations in respect of, economic and regulatory requirements, investment strategies, performance and decisions, balance sheet risk, derivatives, and risk appetite related to market, credit and liquidity risks, policies and reporting.

This committee is chaired by the Group Finance Director.

Internal Model Governance Committee

The role of the Committee is to support the Group Chief Executive and Group Finance Director by giving consideration to, and developing proposals and recommendations that ensure the Internal Model accurately reflects, the structure and risk profile of the business.

The Committee is chaired by the Group Chief Actuary with regular reports submitted to the Board Risk Committee.

Customer Standards Committee

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

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

Group risk appetite framework

The Group's risk appetite framework consists of three components:

- the risk strategy, together with risk preferences, defines the types of risks it aims to take or avoid in the pursuit of its business objectives and sets the boundaries within which its risk appetite will operate;
- the risk appetite statements explain how much risk the Group is prepared to be exposed to in relation to each risk category outlined in the risk strategy and why; and
- the risk metrics help to measure the amount of risk it is exposed to against risk appetite.

Each metric has inbuilt threshold limits designed to provide an early warning of when the Group is approaching its risk appetite limits. The risk appetite statements and metrics have been constructed around the following five high-level risk categories that are considered core to the Group's business:

Category	Risk Appetite Statement
Capital	The Group will maintain a strong and credible capital position with good-quality assets. Maintaining a strong and credible capital position, even in extreme but foreseeable circumstances, is a key target for our sustainability. Policyholders may be wary of placing or keeping their business with a company whose strength is materially out of line with the market or which appears to have poor-quality assets backing its capital strength.
Liquidity	The Group will be sufficiently liquid to retain customer and member confidence, even in extreme but foreseeable circumstances. Maintaining enough liquid assets even in these circumstances is a key target for the Group's sustainability.
Performance	The Group will deliver quality earnings and attractive growth with well-managed volatility. It has a number of principles which relate to long-term returns to customers and policyholders and meeting their reasonable expectations. This covers not only shorter-term volatility, but also volatility around expected longer-term value and returns.
Insurance Risk	The Group will apply strong insurance risk management disciplines for new and existing business. This can be done in a variety of ways, such as only taking on risks where the Group feels it has sufficient expertise to manage them, and taking on specific types of insurance risk in order to improve its overall financial position.
Operational	The Group will operate strong controls over its business environment, with a robust risk management approach designed to ensure the Group and its customers and members are not exposed to inappropriate operational risks or inappropriate risk taking. By doing this, the Group aims to deliver better customer and member outcomes than its peers. The Group aims to provide a positive customer and member experience in everything that it does. In addition, the Group will seek to have good relationships with its regulators and also with law enforcers.

Ratings of the Guarantor and the Notes

At the date of this Prospectus, the Guarantor is 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 rating agency regulation.

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.

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 2018 and 31 December 2017 were £290 million and £264 million, respectively. The investment management fees incurred by the Guarantor for the years 31 December 2018 and 31 December 2017 were £40 million and £38 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.

Directors

Name	Function
Kevin Allen Huw Parry OBE	Director (Chairman)
Barry O'Dwyer	Director (Executive)
Sally Bridgeland	Director (Non-Executive)
Ian Edwin Dilks	Director (Non-Executive)
Tracey Graham	Director (Non-Executive)
Andrew William Palmer	Director (Non-Executive)
David Avery Weymouth	Director (Non-Executive)

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.

See also "*Description of the Guarantor – Board and Leadership changes*".

Conflicts of interest

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

Kevin Parry OBE, Chairman

Mr Parry was appointed to the Board on 19 March 2019. He has deep financial services experience as an executive and non-executive director embracing life insurance, banking and asset management. He was formerly the CFO of Schroders plc and a managing partner at KPMG. Mr Parry is a member of the Nomination Committee (Chair) and attends Board committees. His external appointments include Intermediate Capital Group plc (Chairman), Nationwide Building Society (Director and Audit Committee Chairman), Daily Mail and General Trust plc (Director and Audit & Risk Committee Chairman), Royal National Children's SpringBoard Foundation (Director/Trustee).

Barry O'Dwyer, Group Chief Executive

Mr O'Dwyer joined Royal London on 23 September 2019. Mr O'Dwyer began his career at Standard Life, a mutual insurance company, in 1988. He trained and qualified as an actuary and held a number of senior management positions in both the UK and Ireland. He was Managing Director, Marketing of Standard Life when he left in 2007 to join HBOS. He moved to Prudential in 2009 and was Deputy Chief Executive of their UK & Europe business when he left in 2013 to return to Standard Life plc. In March 2017, Mr O'Dwyer became CEO of Pensions & Savings and joined the Board of Standard Life plc. Following the merger with Aberdeen Asset Management and the sale of Standard Life Assurance to Phoenix Group, Mr O'Dwyer became head of Standard Life Aberdeen's UK business embracing pensions and savings, platforms and asset management. Mr O'Dwyer was also a non-executive director of Phoenix Group, a role he stepped down from prior to joining Royal London.

Andrew Palmer, Independent Non-Executive Director and Senior Independent Director

Mr Palmer was appointed to the Board on 1 April 2011. 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. Mr Palmer is a member of the Audit Committee (Chair), Board Risk and Nomination Committees. He was also appointed to the Remuneration Committee on 9 January 2019 and has also been appointed as Chair of Royal London Asset Management Limited. His external appointments include Trustee and Honorary Treasurer, Cancer Research UK and Chairman of The Royal School of Needlework.

Sally Bridgeland, Independent Non-Executive Director

Mrs Bridgeland was appointed to the Board on 14 January 2015. She spent 20 years at Aon Hewitt, followed by seven years as Chief Executive Officer of the BP Pension Fund. Mrs Bridgeland is a Fellow of the Institute of Actuaries and the Board benefits from her extensive knowledge of asset liability modelling, along with investment strategy design and implementation. Mrs Bridgeland is a member of the With-Profits Committee (Chair), Nomination and Remuneration Committees. Her external appointments include Independent trustee for Lloyds Banking Group Pension Trustee Limited, Nuclear Liabilities Fund Limited and The Royal Air Force Central Fund. Mrs Bridgeland is a member of the Trust Investment Committee at innovation charity Nesta, a Non-Executive Director of Impax Asset Management plc and Chair of Local Pensions Partnership Investments Limited. Mrs Bridgeland is also Honorary Group Captain with 601 (County of London) Squadron RAuxAF.

Ian Dilks, Independent Non-Executive Director

Mr Dilks was appointed to the Board on 14 November 2014. Mr Dilks spent his entire career at PricewaterhouseCoopers LLP, joining the firm (which was then Coopers & Lybrand) in 1974, becoming a Partner in 1986. He rose to become a member of the Global Financial Services leadership team and global insurance leader. From 2010 to 2013 he had responsibility for the public policy and regulatory affairs of the PwC global network. Former Expert Adviser, House of Commons Treasury Committee. Mr Dilks is a member of the Investment Committee (Chair), Nomination and Audit Committees. His external appointments include Chair of NHS Resolution (formerly NHS Litigation Authority).

Tracey Graham, Independent Non-Executive Director

Ms Graham was appointed to the Board on 10 March 2013. She was Chief Executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that, she was President of Sequoia Voting Systems and Customer Services Director at AXA, and held a number of senior positions at HSBC. Ms Graham is a member of the Remuneration Committee (Chair), Board Risk and Nomination Committees and has also been appointed as Chair of Investment Funds Direct Limited. Her external appointments include Non-executive director of Link Scheme Ltd and Chair of the Link Consumer Council, Senior independent director of Ibstock plc and non-executive director of DiscoverIE plc.

David Weymouth, Independent Non-Executive Director

Mr Weymouth was appointed on 1 July 2012. His 27-year career at Barclays, including five years as a member of the Group Executive Committee, gave him wide experience and insight across Operations, Technology, Transformational Change and Risk Management in a global organisation. During seven years as a member of the Executive Committee at RSA Insurance, he extended his skills across another sector of financial services. He has, in addition, consulted to a number of blue chip and Government organisations and served as a non-executive director on several boards both in the UK and overseas. Mr Weymouth is a member of the Board Risk Committee (Chair), Nomination and Audit Committees. His external appointments include Chairman of Mizuho International Holdings plc, Chairman of One Savings Bank plc and non-executive director of FIL Holdings (UK) Limited.

REGULATORY OVERVIEW

The operations of the Group are primarily in the United Kingdom but include activities in Ireland carried out through a subsidiary, RLI DAC. 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 Guarantor is 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 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 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 intervention and scrutiny (resulting in increased internal compliance costs and supervision fees). There continue to be risks and uncertainties as to how the PRA and FCA 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 PRA and FCA expect firms to avoid actions that jeopardise compliance with their statutory objectives. When the PRA and FCA are concerned that a firm may present a risk this may lead to negative consequences, including the requirement to maintain a higher level of regulatory capital (via capital "add-ons" under Solvency II) to match the higher perceived risks, and enforcement action where the risks identified breach the PRA and FCA's high level principles or more prescriptive rules.

Principles for Businesses

The FCA Handbook and the PRA Rulebook contain high level standards for conducting financial services business in the United Kingdom, known as the Principles for Businesses (in the case of the FCA Handbook) and the Fundamental Rules (in the case of the PRA Rulebook). All firms are expected to comply with these standards, which cover matters including the maintenance of adequate systems and controls, treating customers fairly, communicating with customers in a manner that is clear, fair and not misleading and being open and co operative with the PRA and FCA.

Prudential standards

It is a fundamental requirement of the PRA's prudential rules that insurance companies maintain adequate financial resources. This requirement and the obligation for an insurer to carry out a risk-based assessment of its own capital requirements are contained in the PRA Rulebook. Provisions relating to the requirement to manage risks in general and details relating to management of particular types of risk are set out in the PRA Rulebook and in the Senior Management Arrangements, Systems and Controls Sourcebook ("**SYSC**") of the FCA Handbook.

The PRA Rulebook covers the overall requirement to have adequate financial resources (referred to as eligible own funds) to satisfy the technical provisions, minimum capital requirement and solvency capital requirement and sets out what constitutes eligible own funds and how different insurers should calculate their capital requirement. These are explained further under "Solvency II Directive" below.

There are rules in SYSC which aim to encourage senior managers and directors to take appropriate practical responsibility for an insurer's affairs. They elaborate on the Principles for Businesses and require an insurer's senior managers to ensure that, among other things:

- the insurer's employees have suitable skills, knowledge and expertise;
- the insurer has in place appropriate risk management systems and controls; and
- the insurer has in place appropriate compliance, record-keeping and audit systems.

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 include:

- a ban on commission for advised sales of investment products. 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 cost of advice must be agreed between the customer and the adviser;
- requirements for the professional qualifications needed by advisers; and
- requirements to describe 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.

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 Guarantor relating to:

- information to be provided to existing policyholders;
- cancellation rights;
- the handling of claims;
- treating with profits 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 PRA and FCA 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.

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 levels of reduction in distribution to policyholders which require prior notification to the FCA and policyholders) and excess surplus (which is required to be distributed to policyholders);
- market value reductions to a with-profits policy on surrender;
- 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.

The rules seek to establish clarity regarding the participation of with-profits policyholders in surpluses arising within the fund referring to the percentage required by the constitution of the insurer, failing which, the firm's established practice, failing which, a default position for both mutual and proprietary companies applies, being an interest of not less than 90 per cent. of the total amount distributed. 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.

Guidance states that where there is a conflict of interest (e.g. between with-profits policyholders and the Solvency II insurer) the Solvency II insurer must ensure that a strategic investment is made in the best interests of policyholders. It is expected that a Solvency II insurer such as the Guarantor applying the PRA Rulebook Solvency II Firms Investments and other investment rules in relation to With-Profits Businesses in this manner will lead to with-profits policyholders being treated no less fairly than if the Solvency II insurer was not a Solvency II insurer. Restrictions on strategic investments for non-Solvency II insurers with-profits firms (against which this expectation for Solvency II insurers will be measured) 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 modification option described above is in the COBS 20 rules which describe the expected process for seeking waivers and the FCA's requirements before granting a waiver including a report by an independent expert on the likely impact of the proposals on policyholders. It is 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. The PRA supervisory statement explains how the PRA's process for these waivers will work, including how it will co-ordinate with that of the FCA, and explains the additional information which the PRA expects to receive including a business plan and projected capital requirements.

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.

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 eligible with-profits and unit-linked pension policies, to address the issues raised by Project Chrysalis.

Supervision of management and change of control of authorised firms

Senior Managers and Certification Regime

One of the methods by which the PRA and FCA supervise the management of authorised firms is through the SMCR.

The SMCR, which previously applied to deposit-takers and PRA-designated investment firms, was extended to apply to all authorised firms, including insurers, from 10 December 2018. The SMCR replaced the previous regime applicable to insurers, known as the senior insurance managers regime.

The SMCR comprises the following elements:

- a senior managers' regime, which applies to individuals performing a senior management function ("**SMF**"). A SMF is a function that requires the person performing it to be responsible for managing one or more aspects of the relevant firm's affairs (so far as such affairs relate to regulated activities) and those aspects involve, or may involve, a risk of serious consequences for the relevant firm, or for business or other interests of the United Kingdom. Firms must ensure that every activity, business area and management function has an SMF with overall responsibility for it. Appointment of an individual performing an SMF requires regulatory approval;
- a certification regime, which applies to employees of relevant firms who could pose a risk of significant harm to the firm or to any of its customers ("**Certified Persons**"). Such employees are not pre-approved by the PRA or FCA. Rather firms are required to certify that such employees are fit and proper to perform

their roles on at least an annual basis. Insurers were required to have identified and trained the individuals performing certification functions by the commencement date of the SMCR. Fitness and propriety assessments do not need to be completed until 10 December 2019. Every Certified Person will receive one certificate which covers FCA functions and any PRA functions; and

- conduct rules, which are high level requirements that apply to most employees (other than ancillary staff) of an insurer. The conduct rules applicable to SMFs and Certified Persons have applied since 10 December 2018 whilst other employees will need to be trained on, and will become subject to, the relevant conduct rules from 10 December 2019.

Change of control of authorised firms

The PRA and FCA also regulate the acquisition and increase of control over authorised firms. Under FSMA, any person proposing to acquire control of, or increase (or decrease) control over, an authorised firm must first obtain the consent of the FCA and, if necessary, the PRA. In relation to dual regulated firms, such as the Guarantor, approval to the change of control is sought from the PRA who will consult with the FCA. In considering whether to grant or withhold its approval to the change of control, the PRA and FCA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by its acquisition of, or increase in, control.

A person ("**A**"), will acquire control (in accordance with Section 181 FSMA, and be a "**controller**") of an authorised person ("**B**") if they hold:

(a) 10 per cent. or more of the shares in B or a parent undertaking of B ("**P**");

(b) 10 per cent. or more of the voting power in B or P; or

(c) shares or voting power in B or P, as a result of which A is able to exercise significant influence over the management of B.

In order to determine whether person A or a group of persons is a controller, the holdings (shares or voting rights) of A and other persons acting in concert with A (pursuant to an explicit or implicit agreement between them), if any, are aggregated.

A person ("**A**") will be treated as increasing (or decreasing) his control over an authorised firm ("**B**"), requiring prior approval from the FCA (and PRA, if appropriate) if:

(a) the level of his percentage shareholding or voting power in B or P crosses the 10 per cent. (in the case of decreasing control), 20 per cent., 30 per cent. or 50 per cent. threshold; or

(b) if A becomes a parent undertaking of B.

Intervention and enforcement

The PRA and FCA have extensive powers to undertake a range of investigative, disciplinary and enforcement actions, including public censure, restitution, fines or sanctions and to require firms to pay compensation. The PRA and FCA may therefore intervene in the affairs of an authorised firm and use their powers to monitor compliance with their objectives, including withdrawing a firm's authorisation, prohibiting individuals from carrying on regulated activities, suspending firms or individuals from undertaking regulated activities, fining firms or individuals who breach their rules and increasing capital requirements.

The PRA and FCA may also vary or revoke a firm's permission to carry on regulated activities for reasons including (i) if it is desirable to protect the interests of consumers or potential consumers; (ii) if the firm has not engaged in regulated activity for 12 months; or (iii) if it is failing to meet the threshold conditions for

authorisation. The PRA and FCA have further powers to apply to the Court for injunctions against authorised persons and to impose or seek restitution orders where persons have suffered loss.

Pension freedoms

The introduction of the Government's pension freedoms in 2015 provided more flexibility in how and when consumers can access their pension savings. Consumers using the freedoms may make more complicated choices about their retirement. In June 2016, the FCA launched the Retirement Outcomes Review. The regulator wanted to assess how the retirement income market was evolving following the introduction of the pension freedoms, address any emerging issues that might cause consumer harm and put the market on a good footing for the future. The Group is progressing activity to implement the regulatory changes required to address FCA policy requirements, some of which come into force in in November 2019, the rest taking effect in April 2020, to help consumers engage better with their retirement income decisions.

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. All UK authorised and regulated 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 all UK authorised and regulated companies within the Group and the levels of contribution to the Financial Services Compensation Scheme may change over time.

Competition and Markets Authority

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 2018. The Data Protection Act 2018 updates and replaces the Data Protection Act 1998 and came into effect on 25 May 2018. In Ireland, the Data Protection Act 2018 was signed into law on 24 May 2018, replacing its previous data protection framework established under the Data Protection Acts 1988 and 2003. Each Act implements locally the GDPR which replaced the regime set out in Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The regulation contains measures that seek to harmonise data protection procedures and enforcement across the EU. It binds on data controllers in all member states directly without the need for implementation by the member states. Importantly, the penalties for breach of the new regime are much more substantial.

Overview of the EEA regulatory environment

The UK has implemented all of the directives introduced under the EU's 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.

Of particular relevance to the Guarantor's insurance business is Solvency II which provides the framework for the solvency and supervisory regime for insurers and reinsurers in the EEA (see further detail " – *Solvency II*" above). The passporting regime in the EU life and non-life insurance directives is contained in Solvency II and provides that an authorisation to carry on insurance business granted by the insurance regulator in an EEA Member State where the insurer is incorporated or has its head office (a "**home state regulator**") is valid for the entire EEA (the "**passporting right**"). The home state regulator determines the procedures for exercising the passporting right depending on whether an insurer proposes to establish a branch or provide insurance services on a cross-border basis in another EEA Member State (a "**host state**").

Generally, in accordance with the principles set out in the EU Insurance Directives, prudential regulation of an insurer is a matter for its home state regulator whereas the conduct of business and marketing requirements applicable in a host state are determined by the host state regulator. The Guarantor has made use of EEA-wide Passporting Rights in relation to its customers resident in EEA member states other than the UK and any negative change in barrier-free access between the European Union and the UK (for example, as a result of the European Union and the UK failing to agree terms for Brexit) may affect the ability of the Group to rely on such EEA-wide Passporting Rights.

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 rulebook.

Following the referendum vote in favour of Brexit, the Group took the decision to establish an authorised insurance business in Ireland, RLI DAC. This enables the Group to continue to sell new business in Ireland following Brexit and enables the Irish and German life insurance business previously underwritten by the Guarantor to continue to be serviced following its transfer to RLI DAC under Part VII of FSMA. RLI DAC was authorised to write new life insurance business in Ireland by the CBI with effect from 1 January 2019. The transfer of the Irish and German business took effect for accounting purposes as at 1 January 2019 but was otherwise effective as at 7 February 2019.

It is anticipated that Brexit may result in changes to the United Kingdom and European Union's regulatory system. Changes to law and regulation may also affect the regulation of United Kingdom business if the United Kingdom and European Union regulatory systems diverge. For example, it is expected that EU law will cease to apply from the date on which the United Kingdom ceases to be a member state. The European Union (Withdrawal) Act 2018 (the "**Withdrawal Act**"), which received Royal Assent on 26 June 2018, will (amongst other things) repeal the European Communities Act 1972 with effect from the exit day (currently specified to be 31 October 2019, unless adjusted as a result of the withdrawal negotiations). This means that EU treaties, other EU laws and the principle of supremacy of EU law will no longer apply in the UK. The European Communities Act 1972 provides the legal basis, as a matter of UK law, for the UK's membership of the EU. The Withdrawal Act will also convert EU law that applies directly to the UK under the EU treaties into UK law on and from the exit date, and general EU law principles will continue to be used to interpret retained EU law except as modified by UK law. The Withdrawal Act gives the UK government broad powers to make legislation to amend "deficiencies" in retained EU law, and existing UK laws, so that they work appropriately. However, it is possible that there may be future divergence between EU law and UK law (although the scope of any such divergence is uncertain and will be contingent on, amongst other things, the outcome of the withdrawal negotiations and the terms of the future relationship between the UK and EU).

Solvency II Directive

Solvency II, comprising the Directive itself, the directly-effective Level 2 Regulations, prescribing more detailed rules, and other materials such as guidance and technical standards, has applied since 1 January 2016.

The Solvency II prudential framework updated, among other things, the existing EU life, non life, reinsurance and insurance groups directives. The main aim of the 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. Like the Basel III reforms introduced in relation to banks in 2014, the new approach is based on the concept of three pillars: quantitative requirements (the amount of regulatory 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 2, being on an economic capital basis. These Solvency II rules would continue to apply unamended in the UK on the UK leaving the EU, although the rules may diverge over time thereafter.

Solvency II contains rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of an MCR and a higher and more risk sensitive SCR;

- what regulatory capital is eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital may so count;
- what regulatory 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 internal regulatory capital models may be used to calculate the SCR;
- governance requirements including risk management processes;
- considerably expanded reporting 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 "regulatory capital add on" in appropriate cases, the add on to be imposed by the relevant supervisor (the PRA in the case of the Guarantor and the CBI in the case of RLI DAC);
- rules on insurance products which are linked to the value of specific property or indices; and
- 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.

The United Kingdom House of Commons Treasury Select Committee launched an inquiry into Solvency II which explored the impact of the new regime and the options now available to the United Kingdom in the light of its vote at the national referendum of June 2016 to withdraw from the EU. The outcome of the inquiry was published on 27 October 2017 and recommends that the PRA should have a pragmatic discussion with the insurance industry. This should focus on the scope for amendments and increased proportionality in the implementation of Solvency II. In the fourth quarter of 2017 and January 2018, the PRA published a series of consultation papers seeking to optimise the implementation of Solvency II in the United Kingdom. The consultations cover: (i) guidance on the eligibility of assets for the "matching adjustment"; (ii) the minor model change process; and (iii) a reduced reporting burden on firms. In February 2018, the PRA published a formal response to the House of Commons Treasury Select Committee, noting, amongst other things, that whilst the UK remains in the EU, the PRA has limited scope to change the Solvency II rules, but that it is nevertheless committed to making improvements to the implementation of Solvency II where appropriate.

The United Kingdom rules generally replicate the Level 2 implementing rules other than in certain instances, such as the need to provide for with profits funds in the context of long term insurance funds no longer being recognised under Solvency II. Under Solvency II, "ring fenced funds" are funds the assets of which may have a reduced capacity to fully absorb losses in other parts of the insurer on a going concern basis. The PRA rules contain a requirement (which came into effect on 1 January 2016) that firms hold, within each of their with-profits funds, assets that are sufficient to meet the with-profits liabilities of such funds. In March 2015, the FCA published a policy statement containing its own final rules to implement Solvency II. The final rules use a new definition of "with-profits fund surplus" in relation to Solvency II firms' with-profits business, being, in summary, the difference between the assets in the fund and the liabilities in the fund. Only the with-profits fund surplus may be distributed to policyholders and, in the case of proprietary companies, shareholders.

Insurance companies and insurance groups require supervisory approval to use internal models to calculate their SCR (or specific risks or major business units within the SCR), as the PRA wants to ensure ongoing compliance with the Solvency II internal model requirements. 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. Once a firm's internal model has been approved, it must report internal model outputs using the PRA's templates, so that the PRA can supervise internal models on an ongoing basis. The PRA may also impose regulatory capital add ons if it considers that the resultant regulatory capital requirement does not reflect the risk exposures of the relevant firm or insurance group. On 23 September 2019, the Group announced that the PRA had approved the Group's Solvency II Internal Model application.

The Group notes that the technical implementation of Solvency II resulted in a significant increase in the technical provisions and regulatory capital requirements of the Group. However, these increases were mitigated to an extent by the introduction of the Transitional Measures on Technical Provisions, included in the Solvency II Directive, which are designed to ensure a smooth transition to the new regime. The PRA has authorised the use by the Guarantor of Transitional Measures on Technical Provisions. This allows for a transitional deduction on technical provisions which is the difference between the net technical provisions calculated in accordance with the Solvency II rules and the net technical provisions calculated in accordance with the previous regime. The benefit of the Transitional Measures on Technical Provisions will be phased out over a 16 year period.

Because of the nature of the underlying liabilities, insurers with relatively predictable long term liabilities often hold illiquid long term assets to cover their liabilities. They can also assume that the assets will be held to maturity rather than having to be sold to meet unexpected liabilities. Because these instruments would normally provide a higher rate of return than the risk free rate, the insurer could use a higher rate of interest in discounting the liabilities back to a present value than the risk free rate generally required by Solvency II. Using the Solvency II risk free rate causes the current value of the liabilities to be higher. The Long Term Guarantee (LTG) package was agreed to provide adjustments to the risk free rate that can be used effectively to reduce the amount of the relevant technical provisions. The LTG package is made up of three elements: the matching adjustment; the volatility adjustment; and Transitional Measures on Technical Provisions referred to above. The use of each requires the approval of the PRA. An insurer cannot use both the matching adjustment and the volatility adjustment.

The matching adjustment effectively allows the discount rate used to calculate the present value of insurance liabilities to be increased to reflect the return on "ring fenced" assets held to match those liabilities (with a deduction for credit risk). The Guarantor does not use the matching adjustment.

The volatility adjustment is an adjustment to the discount rate that may be used in calculating insurance liabilities. The aim is to reduce the need for insurers holding long term assets to take short term measures in response to temporary market volatility. It is available for all business other than unit-linked business. The Guarantor's use of the volatility adjustment has been approved by the PRA.

It should be noted that RLI DAC is authorised and regulated by the CBI. Consequently, Solvency II (and any relevant Irish implementing provisions) are applied by the CBI, not the UK regulators. More generally, the prudential regulation of RLI DAC is a matter for the CBI, although Solvency II is a European directive and therefore many of the same principles and rules outlined above apply, notwithstanding the fact that certain discrete matters remain the subject of national discretion and therefore variation.

For further information, see also the risk factor entitled "*Risk Factors - The Group operates in a regulated market and is exposed to changes to regulation, policies and interpretations*".

Packaged Retail Investment Products

Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") lays down uniform rules on the format and content of the key information document ("**KID**") to be drawn up by PRIIPs 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 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 PRIIPs Regulation came into force on 29 December 2014 and has applied directly in all Member States since 31 December 2016.

Insurance Distribution Directive

The Insurance Mediation Directive ("**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.

As a result, the Commission published the Second Insurance Mediation Directive ("**IMD2**") on 9 July 2012. IMD2, now known as the Insurance Distribution Directive ("**IDD**"), is designed to improve the regulation of the retail insurance market and aims to ensure a level playing field between all participants involved in the sale of insurance products, and to strengthen policyholder protection.

One of the key objectives of the IDD is to improve consumer protection in the insurance sector through co-ordinating national rules regarding the access to the activity of insurance and reinsurance distribution and improving the regulation of retail insurance sales and distribution practices across the European market.

A key focus of the IDD is on the regulation of distribution of products. The key elements of the IDD include:

- extending the scope to cover all sales of insurance products, whether by insurance intermediaries or insurance undertakings, including proportionate requirements for those who sell insurance products on an ancillary basis;
- identifying, managing and mitigating conflicts of interest;
- strengthening administrative sanctions, as well as measures to be applied in the event of a breach of key provisions;
- enhancing the suitability and objectiveness of insurance advice;
- mandatory disclosure at the pre-contractual stage by insurance intermediaries of the nature and basis (but not amount) of remuneration received;
- ensuring that sellers' professional qualifications match the complexity of the products that they sell; and
- clarifying the procedure for cross-border market entry.

The IDD is a minimum harmonisation directive, enabling EU Member States to impose higher standards if they wish.

In the UK, the Insurance Distribution (Regulated Activities and Miscellaneous Amendments) Order 2018 (the IDD Order) transposed the IDD into UK law, and amended the relevant provisions of FSMA and the Financial

Services and Markets Act 2000 (Regulated Activities) Order 2001. The IDD Order came into force on 1 October 2018.

Conduct of Business requirements for investment businesses and MiFID II

MiFID II, which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation ((EU) No 600/2014); and (iii) secondary legislation in the form of Delegated Acts made thereunder.

MiFID II, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre and post trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use 'passports' to conduct MiFID investment services in other EU Member States.

MiFID II is more wide-ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has a direct impact on MiFID investment firms and an indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

The Insurance Act 2015

The Insurance Act 2015 received Royal Assent on 12 February 2015 and the majority of its provisions entered into force on 12 August 2016. 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 duty of fair presentation which requires policyholders to (i) disclose to insurers "every material circumstance" which the insured knows or ought to know, or (ii) provide the insurer with "sufficient information" to put a prudent insurer on notice that it needs to make further enquiries into those material circumstances;
- the introduction of proportionate remedies for non-disclosure (i.e. breach of the duty of fair presentation);
- any warranty breach by an insured now suspends (rather than entirely discharges) the insurer's liability until such breach is remedied. The insurer remains liable for the periods prior to such breach and the policy will resume in full force once the breach has been remedied;
- clarification and codification of insurers' civil remedies in respect of fraudulent claims;
- the removal of any rule of law which permits a party to avoid an insurance contract on the ground of breach of the duty of utmost good faith, both at common law and under statute and for both consumer and non-consumer contracts; and
- the ability to contract out of certain provisions of the Act, which requires compliance with the transparency requirements of the Act.

The Enterprise Act 2016, which received Royal Assent on 4 May 2016, amongst other things, amended the Insurance Act 2015 by inserting a new provision relating to a term to be implied into every insurance contract which requires the insurer to pay sums due to policyholders within a "reasonable time". This implied term cannot be contracted out of consumer contracts. Contracting out in non-consumer contracts would be possible, save for any deliberate or reckless breach of the implied term and provided that the insurer complies with the transparency requirements of the Insurance Act 2015.

Whistleblowing

In October 2015, the PRA and FCA published policy statements containing new rules in relation to whistleblowing by employees with respect to the conduct of their employers or others within their firm.

The rules go further than the requirements of the Public Interest Disclosure Act 1998 ("**PIDA**"), which is the legislation that protects employees who act as whistleblowers in relation to the conduct of their employer or others within their firm. The rules are designed to encourage individuals with concerns about a firm's practices to raise them, and to ensure that such concerns are properly managed and reported to the regulator where appropriate.

The rules apply to:

- insurance and reinsurance firms within the scope of Solvency II and the Society of Lloyd's and managing agents;
- PRA-designated investment firms; and
- UK deposit takers with assets of £250 million or more (including banks, building societies and credit unions).

Under the rules, such firms must:

- appoint a senior manager in accordance with the requirements of SMCR who is a non-executive director to act as a "whistleblowers' champion". The whistleblowers' champion is responsible for oversight of the firm's whistleblowing policies and procedures, and for ensuring an annual report on whistleblowing is presented to the board and made available to the regulator;
- put internal arrangements in place to handle any type of disclosure by any person (including anonymous disclosures) as opposed to only those disclosures that currently fall within the scope of the PIDA;
- put in place systems which protect confidentiality, allow for the escalation of concerns to the appropriate regulator or law enforcement agency, track the outcome of whistleblowing reports, provide feedback to whistleblowers and have measures in place to protect whistleblowers from victimisation;
- inform the FCA and the PRA if it there is an unsuccessful judgment against the firm in an employment tribunal claim for whistleblowing and there are findings relating to a claim that the whistleblower was victimised;
- ensure that employees based in the United Kingdom are informed about the whistleblowing services offered by the PRA and the FCA and they can approach these regulators directly without first raising concerns with their employer; and
- ensure their appointed representatives and tied agents inform their own staff about the FCA and the PRA's whistleblowing arrangements.

Money Laundering and Financial Crime

The FCA has a duty to consider the importance of minimising the risk of the insurance companies that it regulates being used for financial crime. It therefore looks at measures an insurer takes to monitor, detect and prevent financial crime. This includes measures in respect of money laundering, terrorist financing, data security, bribery and corruption, fraud and sanctions breaches. The EU's money laundering framework was recently updated by the Fourth Money Laundering Directive ("**MLD4**") which was implemented in the UK on 26 June 2017. The EU authorities have now adopted a Fifth Money Laundering Directive ("**MLD5**") to clarify certain aspects of MLD4, which will need to be implemented in EU Member States by 10 January 2020. It is unclear

whether the UK will be required to implement MLD5 following its withdrawal from the EU; however, it is expected that the UK will implement MLD5 in any event.

TAXATION

The following discussion is a general summary of current United Kingdom tax law as applied in England and Wales and published HM Revenue and Customs' practice in respect of the Notes and the Guarantee. 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 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. In particular, Noteholders should be aware that the tax legislation of any jurisdiction where a Noteholder is resident or otherwise subject to taxation (as well as the jurisdiction discussed below) may have an impact on the tax consequences of an investment in the Notes including in respect of any income received from the Notes.

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 are and 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.

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). There are exemptions for interest received by certain categories of agent (such as brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

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

Payments in respect of the Guarantee

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption from withholding on account of United Kingdom tax in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments and they have a United Kingdom source, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.). However, the terms of the on-loan of the net proceeds of the issuance of the Notes from the Issuer to the Guarantor require that payments due from the Guarantor to the Issuer in respect of the loan shall be made directly to the Principal Paying Agent for the purposes of making payments on the Notes.

SUBSCRIPTION AND SALE

BNP Paribas and HSBC Bank plc (the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 3 October 2019 (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 97.976 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 or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes and the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantee, an offer or sale of Notes or Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

European Economic Area ("EEA")

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the IDD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

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 and would not, if the Guarantor was not an authorised person, apply to 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.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority FINMA ("**FINMA**"), and investors in the Notes will not benefit from protection or supervision by such authority.

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.

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 around 8 October 2019, 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 19 September 2019. The giving of the Guarantee in respect of the Notes was authorised by resolutions of the Board of Directors of the Guarantor passed on 9 August 2019 and 27 September 2019 and a resolution of a committee of the Board of Directors of the Guarantor passed on 20 September 2019.

3. There has been no significant change in the financial position or financial performance of the Issuer and no material adverse change in the prospects of the Issuer since 3 September 2019, being its date of incorporation.

4. There has been no significant change in the financial position or financial performance of the Guarantor or of the Group since 31 December 2018. There has been no material adverse change in the prospects of the Guarantor or of the Group since 31 December 2018.

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 206196246. The International Securities Identification Number (ISIN) for the Notes is XS2061962465. For the CFI and FISN of the Notes, see the website of the Association of National Numbering Agencies ("**ANNA**") or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

   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 Legal Entity Identifier code of the Issuer is 21380094SBEIOBDS8O41. The Legal Entity Identifier code of the Guarantor is G8FFYFZ5TIO54GXBFZ14.

8. The website of the Guarantor is www.royallondon.com. The information on www.royallondon.com does not form part of this Prospectus, except where that information has been incorporated by reference into this Prospectus.

9. The initial yield on the Notes to the first interest reset on the First Reset Date (assuming, solely for these purposes, that no interest payments are deferred and the Notes were to be redeemed on the First Reset Date) will be 5.038 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.

10. 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.

11. 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.

12. For so long as the Notes remain outstanding, copies of the following documents will be available for inspection at (in the case of the documents listed in (i) to (iii)) https://www.royallondon.com/about-us/corporate-information/corporate-governance/investor-relations/; (in the case of the document listed in (iv)) https://www.royallondon.com/about-us/corporate-information/corporate-governance/our-governance-framework/; and (in the case of the Documents Incorporated by Reference in (v)) at the websites listed in the section entitled "*Documents Incorporated by Reference*":

    (i) the Trust Deed (which includes the form of the Global Certificate and the Certificates);

    (ii) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus;

    (iii) the articles of association of the Issuer;

    (iv) the articles of association of the Guarantor; and

    (v) a copy of each of the Documents Incorporated by Reference.

    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/prices-and-news/market-news/market-news-home.html*.

13. 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 2017 and 31 December 2018.

14. The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or the Guarantor and their affiliates in the ordinary course of business. The Joint Lead Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and/or the Guarantor and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

    In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or the Guarantor and their affiliates. The Joint Lead Managers and their affiliates that have a lending relationship with Issuer and/or the Guarantor routinely hedge their credit exposure to Issuer and/or the Guarantor 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 securities, including potentially the Notes. Any such 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.

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.

"**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.
"**Board**"	means the Board of Directors of the Guarantor.
"**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 "*Terms and Conditions of the Notes*".
"**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.
"**EEV**"	means European Embedded Value.
"**estate**" or "**Estate**"	means the excess of the assets realistically required to meet the current expectations of policyholders and to settle other liabilities relating to each class of business to which it relates.
"**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, as amended.
"**GAAP**"	means the UK Generally Accepted Accounting Principles.
"**GDPR**"	General Data Protection Regulation (EU) 2016/679.
"**Global Certificate**"	means a global certificate in registered form registered in the name of a nominee for the common depositary for Euroclear and Clearstream, Luxembourg on or about the Issue Date.
"**Group**"	means the Guarantor and its consolidated subsidiaries.
"**Guarantor**"	means The Royal London Mutual Insurance Society Limited.
"**HMRC**"	means Her Majesty's Revenue and Customs.
"**HM Treasury**"	means Her Majesty's Treasury.
"**IAS**"	means International Accounting Standard.
"**ICOBS**"	means the insurance conduct of business sourcebook.
"**IFRS**"	means International Financial Reporting Standards as adopted for use in the EU.
"**IDD**" or "**Insurance Distribution Directive**"	means the Insurance Distribution Directive (Directive (EU) 2016/97).
"**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.
"**IRS**"	means the Inland Revenue Service.
"**Issuer**"	means RL Finance Bonds No. 4 plc.
"**IT**"	means information technology.
"**Joint Lead Managers**"	means BNP Paribas and HSBC Bank plc.
"**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.
"**MCR**"	means Minimum Capital Requirement.
"**Member State**"	means a member state of European Economic Area.

"**MiFID**"	means the Markets in Financial Instruments Directive (2004/39/EC).
"**MiFID II**"	means the Markets in Financial Instruments Directive (2014/65/EU).
"**Moody's**"	means Moody's Investors Service Limited or, where the context requires, another ratings provider within the Moody's group.
"**Notes**"	means the Issuer's £600,000,000 4.875 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2049 guaranteed on a subordinated basis by the Guarantor.
"**Official List**"	means the Official List of the FCA.
"**Pillar 2**"	means 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.
"**PRIIPs Regulation**"	means Regulation (EU) No 1286/2014.
"**ProfitShare**"	means an allocation of part of the Group's operating profits by means of a discretionary enhancement to asset shares and unit fund values of eligible policies.
"**PVNBP**"	means present value of new business premiums.
"**Prospectus**"	means this Prospectus dated 3 October 2019.
"**Prospectus Regulation**"	means Regulation (EU) 2017/1129.
"**Prospectus Regulation Rules**"	means the Prospectus Regulation Rules under the FCA Handbook.
"**Regulation S**"	means Regulation S under the Securities Act.
"**RLAM**"	means Royal London Asset Management Limited.
"**RLCIS**"	means Royal London (CIS) Limited (previously known as the Co-operative Insurance Society Limited).
"**RLI DAC**"	means Royal London Insurance Designated Activity Company.
"**RNS**"	means the Regulatory News Service operated by the London Stock Exchange.
"**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.
"**SMCR**"	means the Senior Managers & Certification Regime.
"**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), as amended.
"**Solvency II Internal Model**"	means the PRA-approved group and solo application to use a partial internal model.
"**Subscription Agreement**"	means the subscription agreement in connection with the issue of the Notes as between the Joint Lead Managers, the Issuer and the Guarantor.
"**Subsidiary**"	has the meaning given to that term under Section 1159 of the Companies Act.
"**Stabilisation Manager**"	means BNP Paribas acting as stabilisation manager in connection with the issue of the Notes.
"**S&P**"	means S&P Global Ratings Europe Limited or, where the context requires, another ratings provider within the Standard & Poor's group.
"**U.S.**"	means the United States.
"**United Kingdom**" or "**UK**"	means the United Kingdom of Great Britain and Northern Ireland.
"**Withdrawal Act**"	means The European Union (Withdrawal) Act 2018.
"**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

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