INFORMATION MEMORANDUM DATED 10 July 2019

Rothesay Life Plc

(incorporated with limited liability in England and Wales with registered number 06127279)

£300,000,000 3.375 per cent. Subordinated Notes due 2026

Issue Price: 99.117 per cent.

The £300,000,000 3.375 per cent. Subordinated Notes due 2026 (the "**Notes**") will be issued by Rothesay Life Plc ("**Rothesay Life Plc**" or the "**Issuer**") and constituted by a trust deed to be dated on or about 12 July 2019 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and the Trustee (as defined in the section headed "*Terms and Conditions of the Notes*" (the "**Conditions**", and references herein to a numbered "**Condition**" shall be construed accordingly)).

The Notes will be direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the winding-up of the Issuer (other than an Approved Winding-up (as defined herein)) or in the event of an administrator of the Issuer being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all Senior Creditors (as defined herein) of the Issuer. The Notes will bear interest from (and including) 12 July 2019 (the "**Issue Date**") at a fixed rate of 3.375 per cent. per annum. Interest will be payable (subject to the following proviso) annually in arrear on 12 July in each year (each an "**Interest Payment Date**"), commencing on 12 July 2020, provided that the Issuer will be required to defer any payment of interest which is otherwise scheduled to be paid if (i) such payment cannot be made in compliance with the solvency condition described in Condition 2*(b)* (the "**Solvency Condition**"), or (ii) a Regulatory Deficiency Interest Deferral Event (as defined herein) has occurred and is continuing, or would occur if such interest payment were made. Any interest so deferred, together with any other interest in respect of the Notes not paid on an earlier Interest Payment Date, shall, for so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest, and will be payable as provided in Condition 5*(c)*.

Unless previously redeemed or purchased and cancelled, the Notes will mature on 12 July 2026 (the "**Maturity Date**") and shall, subject to regulatory approval and the satisfaction of the Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event (as defined herein) having occurred, be redeemed on the Maturity Date at their principal amount, together with any accrued and unpaid interest to (but excluding) the Maturity Date and any Arrears of Interest. Prior to any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer will be required to have complied with relevant legal or regulatory requirements, including as to notifications to, or consent or the provision of non-objection or supervisory approval from (in each case, if and to the extent required) the UK Regulator (as defined herein) and to be in continued compliance with Regulatory Capital Requirements (as defined herein) applicable to it. Subject to the preceding sentence, to the Relevant Rules (as defined herein), to the satisfaction of the Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, all, but not some only, of the Notes may be redeemed at the option of the Issuer before the Maturity Date (i) at any time upon the occurrence of a Tax Event (as defined herein), or (ii) at any time upon the occurrence (or expected occurrence as set out in Condition 6*(d)*) of a Capital Disqualification Event (as defined herein), at their principal amount together with any accrued and unpaid interest to (but excluding) the date of redemption and any Arrears of Interest. The Issuer may, alternatively, following the occurrence of a Capital Disqualification Event (or expected occurrence as set out in Condition 6*(d)*) or a Tax Event, substitute the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Tier 3 Securities as described in the Conditions.

Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the Official List (the "**Official List**") of Euronext Dublin and to trading on the Global Exchange Market ("**GEM**") of Euronext Dublin. This Information Memorandum constitutes "Listing Particulars" for the purposes of the admission of the Notes to the Official List of Euronext Dublin and to trading on the GEM of Euronext Dublin and, for such purposes, does not constitute, and has not been approved, as a prospectus for the purposes of the Prospectus Directive. When used in this Information Memorandum, "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded). This Information Memorandum has been approved by Euronext Dublin. GEM is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU ("**MiFID II**"). This Information Memorandum is available for viewing on the website of Euronext Dublin. References in this Information Memorandum to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on GEM and have been admitted to the Official List of Euronext Dublin.

Payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless that withholding or deduction is required by law. In the event that any such withholding or deduction is made in respect of payments of interest (but not in respect of any payments of principal), additional amounts may be payable by the Issuer, subject to certain exceptions, as more fully described in the Conditions.

The Notes are expected to be assigned a rating of BBB+ by Fitch Ratings Inc. ("**Fitch**"). Fitch is not established in the European Union (the "**EU**") and is not certified under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (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.

Potential investors should read the whole of this Information Memorandum, in particular the "Risk Factors" set out on pages 1 to 29.

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

The Notes are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail clients, as defined in MiFID II. Prospective investors are referred to the section headed "*Prohibition on marketing and sales of Notes to retail investors*" of this Information Memorandum for further information.

Sole Lead Manager

Morgan Stanley

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

References herein to the "**Issuer**" and "**RLP**" are to Rothesay Life Plc, to "**RHUK**" are to the Issuer's parent, Rothesay Holdco UK Limited, and to "**Group**" are to RHUK and its consolidated subsidiaries.

Relevant third party information has been extracted from sources as specified in this Information Memorandum. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

No person has been authorised to give any information or to make any representation other than those contained in this Information Memorandum in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or Morgan Stanley & Co. International plc (the "**Sole Lead Manager**") and its respective affiliates. Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Notes made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented, or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented.

Save for the Issuer, no other person has separately verified the information contained herein. To the fullest extent permitted by law, neither the Sole Lead Manager nor Citicorp Trustee Company Limited (the "**Trustee**") accept any responsibility for the contents of this Information Memorandum or for any other statement made or purported to be made by the Trustee or the Sole Lead Manager or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Trustee and the Sole Lead Manager accordingly disclaims all and any liability to any investor whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Information Memorandum or any such statement. Neither this Information Memorandum nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Trustee or the Sole Lead Manager that any recipient of this Information Memorandum or any other information supplied in connection with the Notes should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Information Memorandum or any other information supplied in connection with the Notes and its purchase of Notes should be based upon such investigation as it deems necessary. Neither the Sole Lead Manager nor the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Information Memorandum nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Sole Lead Manager or the Trustee.

Prohibition of sales to EEA retail investors

The Notes are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), 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 ("**PRIIPs**") 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 PRIIPs.

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 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.

Restrictions on marketing and sales in the United States and to U.S. persons

The distribution of this Information Memorandum and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum comes are required by the Issuer and the Sole Lead Manager to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")).

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. For a description of these and certain further restrictions on offers and sales of Notes and on distribution of this Information Memorandum, see "*Subscription and Sale*".

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other United States regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Information Memorandum. Any representation to the contrary is a criminal offence in the United States.

General restrictions on marketing and sales

This Information Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Sole Lead Manager to subscribe for, or purchase, any Notes.

Stabilisation

In connection with the issue of the Notes, the Sole Lead Manager, if named as the stabilising manager (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager), may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final 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 Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

IMPORTANT INFORMATION

Cautionary note regarding forward-looking statements

This Information Memorandum includes statements (and projections contained in tables within the section headed "*Description of the Issuer and the Group*") 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", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" 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 Information Memorandum and include, but are not limited to, statements regarding the intentions of the Issuer and its consolidated subsidiaries, beliefs or current expectations concerning, among other things, the Group's business, results of operations, financial position, prospects, dividends, growth, strategies and the asset management business.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, its financial position and dividends, and the development of the markets and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this Information Memorandum. 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 Information Memorandum, 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 including, without limitation:

- risks stemming from the economy and the performance of financial markets generally;
- changes in the legal and regulatory environment in which the Group operates;
- the FCA, the PRA (each as defined below) or other regulators intervening in the Group's business on industry wide issues or conducting thematic reviews;
- changes in regulatory capital requirements;
- changes in accounting standards or in actuarial assumptions, including views on longevity;
- risk management policies and procedures being ineffective;
- demographic experience;
- third party asset management firms that manage the Group's assets underperforming or difficulties arising from the Group's outsourcing relationships;
- the Group failing to maintain the availability of its systems and to safeguard the security of its data;
- third party reinsurers being unwilling or unable to meet their obligations under reinsurance contracts;
- legal and arbitration proceedings;
- the level of the Group's indebtedness;

- changes in taxation law, including future changes in the tax legislation affecting specific products offered by the Group and changes to the VAT rules; and
- other factors discussed in the section of this document headed "*Risk Factors*".

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this Information Memorandum reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial condition, prospects, dividends, growth, strategies and the asset management business. Investors should specifically consider the factors identified in this Information Memorandum, which could cause actual results to differ, before making an investment decision. Subject to the requirements of applicable law and regulation, the Issuer undertakes no obligation publicly to release the result of any revisions to any forward-looking statements in this Information Memorandum that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Information Memorandum.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, financial information for the Issuer and the Group in this Information Memorandum and the information incorporated by reference into this Information Memorandum is presented in pounds sterling and has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

Financial information has been provided on an audited basis for the full financial years ended on 31 December 2016, 31 December 2017 and 31 December 2018.

The financial information presented in a number of tables in this Information Memorandum has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this Information Memorandum reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

References to "**Solvency II**" in this Information Memorandum are to the Directive on the taking up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC) 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.

Presentation of certain key performance indicators and targets

Certain key performance indicators and targets referred to in this Information Memorandum are unaudited non generally accepted accounting principles ("**GAAP**") measures that are used by the Group, including those described below:

- ***Solvency II Own Funds ("Own Funds")*** — Own Funds are the aggregate of "basic Own Funds" (assets an insurer has on its balance sheet) and "ancillary Own Funds" (off-balance sheet resources that are loss absorbent, for example, unpaid share capital). All such assets are subject to eligibility criteria and weighting, as determined by reference to Articles 93 to 95 of Solvency II as well as to Articles 69 to 73, 76, 77, 79 and 82 of Commission Delegated Regulation (EU) 2015/35, as interpreted by the European Insurance and Occupational Pension Authority's ("**EIOPA**") "Guidelines on Own Funds" (BoS-14/168 EN). References to the Own Funds of a particular entity are references to the Own Funds held by an entity, whereas references to the Group's Own Funds are references to the Own Funds within the scope of the Solvency II group.

- ***Solvency Capital Requirement ("SCR")*** — This is the standard Own Funds level that a UK life insurer is required to maintain by the United Kingdom Prudential Regulation Authority ("**PRA**"). A separate calculation also applies to Solvency II groups. SCR is determined by reference to a basic standard formula set out in Articles 103–111 of Solvency II, however, a life insurer may agree an amendment to the standard formula to create a bespoke calculation which more accurately reflects the risks applicable to that life insurer, that amendment is achieved by way of an internal model (the "**Internal Model**"). Internal Models can be further defined as full or partial models. Full model – all risk categories are quantified using the internal model. Partial model – one or more modules of the SCR as laid out under Solvency II are calculated using the standard formula. Own Funds held to meet the SCR requirement (and any additional amendment or add-on approved by the PRA) are also referred to as "regulatory capital" and any reference to an increase or decrease in a regulatory capital requirement is a reference to an increase or decrease in the amount of regulatory capital an entity has to hold. The amount by which an SCR requirement is exceeded by Own Funds is referred to as the "**Solvency II Surplus**".

- ***Solvency II Coverage Ratio ("SCR Coverage")*** — This is the ratio of Solvency II Own Funds to SCR.
- ***Assets under management ("AUM")*** — These are assets managed by the Group and held: (i) in respect of actual or anticipated liabilities to policyholders under a policy; or (ii) on behalf of policyholders under the terms of a policy; or (iii) in respect of shareholders to the extent the assets are not held for (i) or (ii).

Currencies

In this Information Memorandum and the information incorporated by reference into this Information Memorandum, references to "**£**", "**sterling**" or "**GBP**" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**"), references to "**US dollars**" or "**U.S.$**", are to the lawful currency of the United States, references to "**Euro**", "**euro**" or "**€**" are to the euro, the European single currency which was introduced at the start of the third stage of the European Economic and Monetary Union, pursuant to the Treaty establishing the European Community (as amended from time to time), references to "**bn**" are to billions and references to "**m**" are to millions.

Currency exchange rate information

Unless otherwise indicated, the financial information contained in this Information Memorandum has been expressed in sterling. The functional currency of the Issuer is sterling, as is the reporting currency of the Group. Transactions not already measured in sterling have been translated into sterling in accordance with the relevant provisions of IAS21. These translations should not be construed as representations that the relevant currency could be converted into sterling at the rate indicated, at any other rate or at all.

In addition to the convenience translations (the basis of which is described above), the basis of translation of foreign currency transactions and amounts contained in the audited and unaudited financial information included in this Information Memorandum is described therein and may be different to the convenience translations.

Notes may not be a suitable investment for all investors

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 Information Memorandum 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.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies that may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Any of these risk factors, individually or in the aggregate, could have an adverse effect on the Issuer and the impact each risk could have on the Issuer is set out below.

Factors that the Issuer believes may be material to assessing the market risks associated with the Notes and which are inherent in investing in the Notes are also described below. The Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent 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 Information Memorandum and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes

Insurance risks relating to the Group's business

The Group writes only one line of insurance business and therefore any increase in the costs associated with that type of insurance or any failure accurately to assess the value of the liabilities insured could have an adverse effect on the Group's business

The Group's insurance business is currently limited to assuming and insuring the liabilities of defined benefit pension schemes, in-payment annuities and deferred annuities. Benefit amounts must be well defined either in real or nominal terms, and there must be sufficient data available to enable an assessment of the value of those liabilities. If the data on which the Group relies to assess the liabilities is unreliable or incorrect, or the cost of such liabilities becomes subject to a sudden, unexpected or unprotected increase, in the absence of sufficient reinsurance arrangements and other reserves, the Group may not be prepared or in a position to cover the increased cost of such liabilities. Given that the Group does not write diversified lines of business, this could have an adverse impact on the Group's business, results of operations and financial position.

There can be no assurance that the Group will continue to write a single line of insurance business. Any decision by the Group to change its business strategy or to write new types of insurance business could result in the Group being subject to different solvency, capital or other regulatory requirements. Future diversification of the Group's business could also subject it to risks that could affect its existing operations. As a result, this could have an adverse impact on the Group's business, results of operations and financial position.

The Group's capital position may be impacted by sudden increases in longevity expectations

The Group has a specific risk tolerance and one of its primary insurance-related risks is longevity risk. The Group has strict underwriting criteria which currently aim to maintain reinsurance of the Group's longevity risk within a target range, subject to its defined counterparty risk limits. Its approach is to mitigate longevity risk through use of reinsurance by entering into longevity reinsurance agreements with reinsurers after an insurance transaction is executed. The Group pays an agreed schedule of premiums to the relevant reinsurer on an ongoing basis in exchange for the reinsurer paying the actual pension benefits as they arise. To date, these reinsurance arrangements have involved no upfront premium outlay being payable by the Group to reinsurers and such arrangements are collateralised for moves in projections of life expectancy. As at 31 December 2018, such measures had the effect of hedging approximately 78 per cent. of the Group's exposure to longevity risk associated with the Group's underlying annuity contracts. However, the Group is also subject to limitations as to the longevity related liabilities for which it can obtain reinsurance cover, for example, in relation to deferred members, unmarried dependants and small pension insurance transactions. The Group will also obtain reinsurance cover only where it is economical to do so. In addition to the availability and cost of suitable reinsurance cover, the proportion of risk retained by the Group depends on the nature of the risks that are required to be covered.

The Group did enter into one specific asset-backed reinsurance transaction through which Monument Re entered into an agreement to acquire a €140m portfolio of Irish annuities from the Group. The acquisition has been structured initially as reinsurance to Monument Re and is expected to be followed by a PART VII transfer of the portfolio to Laguna Life d.a.c., subject to regulatory and court approvals. This transaction formed part of the Brexit preparations undertaken by the Group. Should the Part VII Transfer not be completed successfully, the ability of the Issuer to service its small portfolio of Irish policies and policyholders may be impaired once the United Kingdom leaves the European Union. The Group is currently developing contingency plans.

Similar to other bulk annuity providers, the performance of the Group's business will depend on the actual experience of mortality rates and mortality trends. The projection of annuity obligations used for pricing and reserving requires a number of actuarial assumptions to be made. Assumptions utilised in the projections are determined using recent historical experience, rating models and reinsurance pricing. The Group conducts rigorous research into longevity risk, using, among other sources, data from its substantial portfolio. As part of its pension annuity pricing and reserving policy, the Group assumes that current rates of mortality continuously improve over time at levels based on adjusted data and models from the Continuous Mortality Investigation, as published by the Institute and Faculty of Actuaries. However, there is uncertainty associated with longevity risk, due to the difficulty in predicting future drivers of longevity improvements and the length of the period for which such risk persists. If mortality improvement rates significantly exceed the improvement assumed, the Group's results of operations could be adversely affected. There is also potential for systemic changes in mortality rates to arise, for example, from a cure for a major disease being found in the near term which may have a limited immediate impact on current mortality rates but could have a significant impact on longer-term expectations of mortality rates. As a result, there is the potential for the Group's assumptions about longevity to be incorrect or inaccurate, such that policyholders live for a longer period of time than had been anticipated in the projections forecast by the Group. Conversely, the impact of epidemics and other effects that cause a large number of deaths also have the potential for the Group's assumptions as regards longevity to be incorrect or inaccurate.

In addition, given the nature of the bulk annuities that the Group writes and assumes, the assumptions used can only be derived specifically from the section of the population under consideration rather than more broadly. Consequently, the Group is also exposed to longevity "basis risk", which occurs in circumstances when patterns that are detected on, for example, a national level are not necessarily commensurate with, or reflective of, any given subgroup relevant to the Group (such as the policyholders that are members of UK defined benefit schemes). The Group is also subject to "measurement lag risk", which occurs in circumstances where well-defined improvement patterns in the relevant data do not become apparent until a period of time has elapsed.

Some of the annuities acquired from other insurers are individual annuities that were purchased by individuals using the proceeds of their personal pension funds. As individuals have an open market option that allows them to purchase an annuity from any provider, it is likely that those purchasing annuities that have not been medically underwritten are more healthy than average. The Group has allowed for this "selection risk" in setting its assumptions but there is a risk that the allowance for this risk is incorrect.

Any change in longevity expectations may result in the Group having to hold a higher level of reserves and/or capital. It may also impact on the Group's profitability, which could have an adverse impact on the Group's business, results of operations and financial position.

Inaccurate data, incorrect projections or incorrect assumptions may result in the Group holding insufficient reserves to support its liabilities

In common with other life insurers, the profitability of the Group's business depends on a mix of factors including trends in the mortality levels noted above, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expenses. As a consequence, the Group needs to make assumptions about a number of factors in determining the pricing of its products and setting reserves, as well as for reporting its capital levels and the results of its long-term business operations. As noted above, the assumptions that the Group makes about future expected levels of mortality and the risks associated therewith are particularly relevant for its business.

The Group makes assumptions relating to the proportion of policyholders who are married (or have other eligible financial dependants) and the age of a policyholder's spouse. There may be instances in which the proportion of policyholders who are married is higher than predicted and a greater number of financial dependents than anticipated are eligible to receive benefits following the deaths of policyholders. Should these circumstances arise, the Group will be required to pay a greater than expected amount of contingent benefits. Similarly, the Group may be required to pay out a higher amount than expected where a deceased policyholder's spouse, who is eligible to receive benefits following the death of a policyholder, is younger than expected.

The Group also makes certain assumptions in relation to future expected levels of the exercise of options, specifically cash commutation and transfers by deferred members to another insurance provider. The Group's assumptions reflect recent past experience for its business. If actual levels of take up of cash commutation and transfers are different from those assumed, the Group's business, results of operations and financial position could be adversely affected.

Other key assumptions which the Group makes concern the returns it will make on its assets including how much may be lost in future due to defaults, and the long-term costs of managing the business including costs associated with policy administration and investment management. Higher costs or lower investment returns could adversely affect the Group's business, results of operations and financial position.

The Group holds reserves to try to ensure that it has sufficient funds available to pay its liabilities at the time that they fall due. The calculation of the potential liabilities is based on, among other things, assumptions reflecting the Group's best estimate at the time, allowing a margin for risk and adverse deviation. The Group monitors actual experience as compared with the actuarial assumptions used and it refines its assumptions on the basis of experience. While the Group currently considers that the reserves established and capital held in respect of the Group's business are sufficiently conservative to meet its obligations to policyholders under a range of potential circumstances, the Group's assumptions may prove to be incorrect or inaccurate (whether as a result of miscalculation by the Group or changes in factors such as longevity which are outside the Group's control). Consequently, the Group could be required to establish additional reserves, which could have a material impact on the Group's results of operations and financial position.

Inaccuracies in data held by or on behalf of the Group or in projections or assumptions made by the Group may (i) result in the Group having to hold a higher level of reserves or a higher level of capital, and/or (ii) have an adverse impact on the Group's business, results of operations and financial position.

The unavailability of adequate reinsurance coverage may adversely impact the Group

The Group enters into longevity reinsurance arrangements with a diversified group of global third-party reinsurers in order to cover a large proportion of its risk. The availability and cost of reinsurance depends upon market conditions and the reinsurers' own financial position and capacity. Reinsurers are also subject to changes in legislation and regulation, which could have a material impact on the Group's ability to obtain reinsurance coverage, particularly where such changes give rise to increases in pricing or a reluctance on the part of reinsurers to reinsure certain types of risk.

It is possible that the Group could enter into a defined benefit pension scheme buy-in or buy-out transaction (as described in the section headed "*Description of the Issuer and the Group – Market drivers*") and then be unable to obtain reinsurance in respect of all or part of the longevity related liabilities assumed. If the Group is unable to obtain reinsurance, either because there is a lack of reinsurance coverage available due to changes in the reinsurance market, or reinsurance cover is available but only on terms that the Group is not willing or able to meet, the Group would be required to retain a significant portion of risk and could be subject to higher capital requirements as a result. Accordingly, this could have a material adverse effect on the Group's business, results of operations and financial position.

The Group is exposed to conduct risks where its actions result in poor outcomes for policyholders or other individuals

The Group has acquired over 385,000 individual annuity policies from The Prudential Assurance Company Limited ("**PACL**") and has over 280,000 individual annuity policies currently in place that it issued itself and is therefore exposed to conduct risks. Conduct risk can arise as a result of the Group's interaction with policyholders and represents the risk that the Group achieves outcomes for customers which are, or could be expected to become, detrimental to them. The Group also has some limited exposure to conduct risk relating to historic conduct of the insurance companies from which it has acquired individual annuities. At present, there are no specific thematic reviews or investigations that the Group is aware of which may impact these types of annuities.

Additionally, as the Group is reliant on third-party administration providers to service its policyholders, handle claims and distribute its products, there is a risk of the Group being exposed to poor treatment of policyholders through the conduct of the administration providers. Associated risks include, among other things, failings in administration and customer service, and poor policyholder complaint handling. These risks could result in regulatory censure and fines, additional costs incurred and/or policyholder redress, as well as reputational damage. In addition, policyholders or groups of policyholders may seek legal redress where their policy or policies fail to meet their reasonable expectations.

The Group also acquires newly originated equity release mortgages ("**ERMs**") and although both the lender and the intermediaries advising on the sale of ERMs are independent of the Group, the product design and conduct of the lender could give rise to conduct risks for the Group.

Should any such conduct risks arise, it is possible that they may have an adverse effect on the Group's business, results of operations and financial position.

Business and economic risks relating to the Group's business

The Group operates in a sector in which the volume of new business can vary from year to year

The volume of buy-in and buy-out transactions by defined benefit pension schemes will fluctuate over time and from year to year as a result of, among other things, changes in the pricing and affordability of defined benefit pension scheme buy-in and buy-out transactions, which can be affected by factors such as the level of real interest rates. A prolonged low interest rate environment in the future may, for example, adversely impact the pricing and affordability of such transactions. This is considered in further detail in the section headed "*Description of the Issuer and the Group – Market drivers*".

The Group has also executed a number of large individual transactions both with defined benefit pension schemes and in the acquisition of back books from other insurers. The likelihood of such transactions being repeated in the future over any given period of time is not ascertainable. Past performance is not an indicator of future performance and there can be no assurance that the Group will continue to write the same or similar volumes of business as in previous years nor that there will be upward linear transaction growth in the defined benefit pension scheme buy-in/buy-out sector. Similarly, there can be no assurance that the Group's business will not be affected by any adverse publicity arising from any difference between the Group's results of operations in any financial year and commentators' expectations for such results.

A deterioration in the ratings or value of sovereign debt could have a material adverse impact on the Group's business, results of operations and financial position

Sovereign debt represents a substantial portion of the Group's investment portfolio, of which the majority comprises UK government guaranteed bonds. Accordingly, the Group is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some countries and there is a risk of further downgrades if macroeconomic uncertainties and geopolitical risks persist.

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the relevant jurisdictions and the creditworthiness of the sovereign. In addition, the governmental authorities that control the repayment of such debt may be unable or unwilling to repay principal or pay interest when it falls due in accordance with the terms of such debt, and the Group may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy towards local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or the imposition of regulatory controls or taxes, to devalue their currencies' exchange rates. Governments may also adopt monetary and other policies (including managing their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of companies or other institutions.

Under Solvency II, the rating of non-EU sovereign debt impacts the associated capital requirements and hence a downgrade of the US, in particular, could lead to increased capital requirements.

In addition, if a sovereign default or other such event described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and the Group might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also a risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated, this could have a material adverse effect on the Group's business, results of operations and financial position.

The competitive environment in the UK life insurance market could affect the profitability of the Group and the long-term viability of its business model

The life insurance market in which the Group operates in the UK is highly competitive. In light of developing demographic trends and as is consistent with other participants in the UK insurance industry, the Group faces strong competition in its business and challenges to its continued profitability. The long-term viability of the Group's product range depends upon an adequate response to such competition by management. The Group's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Pension Insurance Corporation, Just Group, Phoenix and Lloyds Banking Group. Other companies, either existing UK or non-UK insurers or brand-new entities, may enter the market in future. In recent years, there have been a few new entrants into the sector, structured as pension consolidators. These entities are not seen as direct competitors to the Group as their focus is more on smaller transactions and pension funds that are less funded and therefore cannot afford a bulk annuity transaction with an insurance company. Several factors affect the Group's ability to sell its products (and therefore its continued profitability), including price and yields offered, financial strength and ratings as regards assets, brand strength and name recognition, investment management performance and developing demographic trends, and the appetite of companies and defined benefit pension schemes for pension de-risking transactions. The Group faces competitors that are larger, have greater financial resources, a greater market share or offer a broader range of products. Further, heightened competition for talented and skilled employees may limit the Group's potential to grow its business as quickly as planned.

Management considers that competition will intensify across the UK in response to demand from companies and defined benefit pension schemes for pension de-risking transactions, the impact of consolidation, availability of investors willing to deploy capital into the sector, regulatory actions and other factors. The Group's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. A failure to do so may have a material adverse effect on the Group's business, results of operations and financial position.

In addition, competitor companies may merge, cease to write business and go into run-off or otherwise withdraw from major lines of business. While these actions may impact positively on the Group by reducing the number of competitors in the market, they may also result in a material adverse effect on the Group's business, results of operations and financial position, for example, through the increased market strength of a competitor following a merger.

The UK insurance industry also faces the risk that the proposed framework for pension scheme consolidation highlighted in the Department for Work & Pensions white paper "Protecting Defined Benefit Pension Schemes" leads to the emergence of an alternative, potentially cheaper, option for sponsoring employers wishing to settle their pension scheme liabilities. If pension schemes were allowed to transfer their liabilities to new pension scheme consolidators then demand for some of the Group's product range may fall, particularly for the smaller pension schemes.

The Group's business is concentrated in the UK and is exposed to events affecting the UK

The Group writes the majority of its business in the UK and is therefore exposed to the economic, market, fiscal, regulatory, legislative, political and social conditions in the UK. A particular example of this is the unpredictable consequences of the vote by the UK to leave the European Union, also known as "Brexit". Please also refer to the risk factors titled "*Geopolitical issues affecting the UK more generally may have an adverse impact on the Group*" and "*Legal and regulatory risks relating to the Group's business (including those relating to standards of accounting and taxation)*".

Adverse events affecting the economy of the UK and the longevity of its citizens could have a material adverse effect on the Group's business. The Group is particularly sensitive to economic conditions in respect of its investment portfolio. Consequently, any events which have an adverse impact on the UK economy could have a significant impact on the Group's business, results of operations and financial position.

In addition, if Scotland were to become independent from the UK or if Northern Ireland were to be treated separately from the rest of the UK as a result of Brexit or otherwise, the impact on financial and currency markets could be significant and may impact materially upon all financial institutions and insurance companies, including the Group. Such an event could adversely affect the Group's business, results of operations and financial position.

There can be no assurance that the Group's insurance business will continue to be concentrated in the UK and the Group may in the future seek to carry on insurance business overseas. Consequently, the Group could become subject to additional risks as a result of exposure to foreign economic, market, fiscal, regulatory, legislative, political and social conditions in the relevant countries in which it may seek to carry on business. This could have an adverse impact on the Group's business, results of operations and financial position.

The Group's business is inherently subject to market fluctuations and general economic conditions. A deterioration in the global financial markets (including in the UK) and global economic and market conditions more generally could have a material adverse impact on the Group's business, results of operations and financial position

Like other insurance companies, the Group's business is inherently subject to, and affected by, fluctuations in general macro-economic and worldwide financial market conditions. Although the Group writes the majority of its business in the UK, the Group's assets are invested in the UK and overseas, particularly in the U.S. and Europe.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over sovereign debt, the general slowing in world growth from subdued demand or slow demand, and the timing and scale of quantitative easing programmes of central banks. Upheavals in the financial markets may affect general levels of economic activity, employment and demand by companies and defined benefit pension schemes for pension de-risking transactions. The demand for annuities, reinsurance and other insurance products may therefore be adversely affected. If this uncertainty or negative trends in international economic and investment climates are sustained, it is likely to have a negative impact on the insurance sector over time and therefore may have an adverse impact on the Group's business, results of operations and financial position.

Since 2008, the Group has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates and liquidity, and widespread economic uncertainty. The global financial crisis and the subsequent Eurozone sovereign debt crisis have led to periods of marked deterioration and severe volatility in financial markets internationally. A wide variety of factors, including concerns over slowing growth, high sovereign debt within, and to a lesser degree outside, the Eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats and the risk of trade wars have contributed to increased volatility in the financial markets in recent years and have diminished growth expectations for the global economy going forward. Global fixed income markets continue to experience periods of volatility and limited market liquidity, which have affected a broad range of asset classes and sectors. Trends in general economic conditions such as consumer spending, business investment, government spending, exchange rates and commodity prices, the volatility and strength of both debt and equity markets, and inflation have also increased uncertainty in financial markets. Consequently, it is clear that in the current economic climate there are a higher number of economic risks than expected in a normal economic cycle. Governments around the world, including in the UK, have intervened to stabilise financial markets through fiscal stimulus and injection of funds, with a particular focus being to avoid the failure of key financial institutions. In the UK, the Bank of England has maintained a policy of low interest rates and implemented quantitative easing in order to support the economic recovery. In a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for annuity policies could be adversely affected. As a result of these market exposures, the Group's financial position and results of operations may be subject to volatility and there can be no assurance as to the effect of such volatility, particularly if it is prolonged, on the Group's business, results of operations and financial position.

Additionally, the interdependence of global financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt global securities markets and settlement systems in such 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 the Group's business, results of operations and financial position as a result of reduced confidence in the financial services and insurance industry.

In addition, new challenges related to market fluctuations and general economic conditions may continue to emerge. In the future, the adverse effects of such factors, coupled with a risk of deterioration in global financial markets, could have significant consequences for the business, results of operations and financial position of the Group, and be felt principally through (i) investment impairments or reduced investment returns, which could affect the Group's ability to write significant volumes of new business and would have a negative impact on its assets under management as well as its profitability, (ii) higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses, (iii) downgrades of assets resulting in the need to hold additional solvency capital, (iv) increased counterparty credit risk to which the Group is exposed through the failure of counterparties to transactions with the Group or, for derivative transactions, adequate collateral not being in place, (v) estimates of the value of financial instruments being difficult because of certain illiquid or closed markets, which may result in the value at which financial instruments can be realised being highly subjective (processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time)), (vi) increased illiquidity which, in turn, increases uncertainty in relation to the accessibility of financial resources and may reduce capital resources as valuations decline, (vii) a material impact on the Group's ability to meet its liabilities to policyholders, clients and Shareholders (see – "*Description of the Issuer and the Group – Overview of the Group*" for further details) should there be a significant reduction in market values, and (viii) an adverse effect on the Group or its subsidiaries' ability to meet their solvency obligations. Accordingly, such factors have significant consequences for the Group's business and could result in a material adverse impact on its business, results of operations and financial position.

Geopolitical issues affecting the UK more generally may have an adverse impact on the Group

The Group's results of operations are materially affected by geopolitical factors which affect the UK. Geopolitical issues in, and emanating from, the US, the Middle East, China, Russia, Syria, North Korea, Ukraine and North Africa have contributed to increased uncertainty and volatility in the financial markets in recent years.

It is not possible to predict the manner and extent to which the UK's expected departure from the EU will affect the Group's business but, as the Group operates a UK-based business, such an event could adversely affect the Group's business and results of operations and financial position. Brexit remains uncertain in terms of the format in which it will be adopted by the UK and the EU. There is also significant uncertainty regarding the timing and the post-Brexit interim measures (if any) that will deal with critical issues such as immigration, cross-border business, freedom of movement, etc. If any other EU member state ("**Member State**") were to seek to leave the Eurozone, or if an EU Member State were to default on its obligations, or if the Eurozone were broken up entirely, the impact on the financial and currency markets would be significant and could impact materially upon all financial institutions and insurance companies, including the Group. Whilst the final outcome remains uncertain, it is difficult to forecast whether there will be any impact on the trading and operating costs of the business, value of the Group's investment assets, the markets the Group participates in and other substantial business factors.

Circumstances may arise which result in the Group ceasing to write new business in the future

There are a variety of factors which could result in the Group being unable to write new business in the future, including, but not limited to, the actions of key personnel, regulatory intervention and/or adverse conditions in the market in which the Group operates.

Changes in pensions regulation and legislation in particular may have an adverse effect on the volume of new business written by the Group. The Pensions Act 2004 ("**Pensions Act**") introduced changes to the way in which defined benefit pension scheme liabilities are managed by increasing the regulatory requirements for defined benefit pension schemes. This included, among other things, introducing a requirement for the defined benefit pension scheme sponsor to meet any deficit in the defined benefit pension scheme on the funding basis agreed between the defined benefit pension scheme trustee and the defined benefit pension scheme sponsor. This means that the sponsor must meet the cost of insuring the pension scheme liabilities on a buy-out transaction (and the defined benefit pension scheme must then enter into an insurance buy-in transaction in respect of all such liabilities) in order to remove the obligation to make any further contributions to the deficit in the defined benefit pension scheme. Following this, there has been a growth in the volume of pension buy-out and buy-in transactions year on year. However, any future changes to pensions legislation and/or the regulation of defined benefit pension schemes could have a negative impact on the volume of policies underwritten by the Group or increase the Group's costs of doing so, which could adversely affect the Group's business, results of operations and financial position.

A failure of the Group to continue to write new business would have an adverse effect on the financial position of the Group in circumstances where the Group fails to scale back its cost base to correspond with any such reduction in new business volumes. Similarly, any increase in the volume of business written by the Group may have an adverse impact on the Group's business, results of operations and financial position if the Group fails to charge an adequate premium or has insufficient adequate capital to support an increase in its liabilities or fails to scale back its cost base appropriately.

Certain arrangements to effect the completion of the transfer to the Issuer of the insurance business of PACL are conditional upon court approval, and a failure to obtain such approval could have a material adverse effect on the Group's business, results of operations and financial position

On 14 March 2018, the Issuer entered into an agreement with Prudential Plc ("**Prudential**") to acquire, and commenced the reinsurance of, an approximately £12 billion annuity portfolio from PACL (the "**PACL Reinsurance Transaction**"). The Issuer has reinsured the annuity portfolio for an interim period until it is transferred to the Issuer. It is intended that the transfer of all or substantially all of the annuity portfolio will occur under Part VII of the Financial Services and Markets Act 2000 ("**FSMA**") (a "**Part VII Transfer**"), at which time the Issuer will acquire legal title to the relevant proportion of the annuity portfolio and assume responsibility for the administration of the policies comprising such of the annuity portfolio that is transferred.

In the event that court approval is not obtained or any aspect of such Part VII Transfer fails for any reason such that the relevant annuity policies held by PACL are not transferred to the Issuer, the Group's business, results of operations and financial position could be materially affected through adverse impacts on the Group's forecasts, as well as the capital position of the Issuer. It is possible that if the Part VII Transfer fails, the reinsurance transaction will be unwound.

The unaudited financial information as at 30 June 2018 includes the impact of the PACL Reinsurance Transaction. Investors should therefore note that financial information in respect of periods ended prior to 30 June 2018 and those in respect of the period ended 30 June 2018 and later periods are not directly comparable.

Credit, market and liquidity risks relating to the Group's business

The Group has exposure to various investment assets and any losses on the Group's investments may have a material adverse impact on the Group's business, results of operations and financial position

The Group's primary investment classes comprise corporate bonds, Gilts and collateralised derivative assets, with other investments described in the section headed "*Description of the Issuer and the Group – Investment management*". The Group holds investments in order to meet its liabilities and its profitability depends to a large extent on the returns achieved on its investment portfolio. However, the value of investment assets fluctuates, which can have a sudden and unexpected impact on the Group's capital levels. In the event of a downturn in the fixed income and/or other investment markets, there is a risk that the Group's liabilities will exceed the value of its assets due to asset values falling. This would have an adverse impact on the Group's business, results of operations and financial position.

Significant declines in property prices could have an adverse effect on the Group

The Issuer has acquired and continues to acquire newly originated ERMs as well as seasoned portfolios of ERMs and the Issuer's business plan targets further material investments in ERMs in the future. A significant decline or sustained future declines in UK residential house prices could cause losses on its ERM portfolio, which is secured on residential property. Future adverse deviations in the mortality or voluntary repayment experience of ERM holders could also cause losses on the Issuer's ERM portfolio.

The Issuer has also made loans secured on commercial real estate. Whilst these loans generally have a low loan to value ratio or are against properties with high quality, long term tenants, a significant fall in UK and U.S. commercial real estate prices could adversely impact the performance of the commercial real estate loan portfolio.

Adverse investment performance in relation to these investments could have an adverse effect on the financial performance of the Group.

The Group has exposure to default and downgrade risk in relation to its investments

The majority of the Group's investment assets comprise bonds, Gilts and collateralised derivative assets, pursuant to which the Group is entitled to receive payments of interest and repayment of principal from the issuers of such instruments. The Group also seeks investment opportunities, including, among others, sovereign debt, supranational debt, secured residential lending, commercial real estate loans, equity release mortgages, other secured lending, regulated infrastructure, collective investment schemes, cash and corporate bonds with a negative basis risk premium. As the Group's balance sheet has grown, the Group has also begun to invest part of its portfolio in corporate bonds. As noted above, sovereign debt represents a substantial portion of the Group's investment portfolio, of which the majority comprises UK government guaranteed bonds. The Group is therefore exposed to the risk of a default in payment of the instruments held in the Group's investment portfolio, including the risk of a default by the UK government on the bonds that are held by the Group. Rating downgrade of an investment also leads to an increase in the capital required to be held under Solvency II.

The investment strategy pursued by the Group seeks to minimise credit default risk and secure an illiquidity premium through (i) investing in low-risk asset classes such as government guaranteed bonds, (ii) investing in asset classes with security and other structural mitigation which protects the Group against loss in the event of a default, and (iii) limiting outright credit risk through the use of credit derivative hedges. In addition, the Group has accumulated an asset base for which few fundamental credit assessments are required. Monitoring and re-hedging of the Group's credit exposure occurs on a daily basis. However, there can be no assurance that such hedging will be effective in protecting the Group from such risk.

Notwithstanding the Group's relatively conservative investment strategy and its approach to risk management, any credit default risk resulting in the loss of all or part of the cash flow generated by the Group's investment assets could have a direct, immediate and materially adverse impact on the value of the Group's investment portfolio and on the income and returns that the Group expects to realise on such investments. If the investments held by the Group are subject to defaults or rating downgrades, this may have a material adverse impact on the Group's business, results of operations and financial position.

The Group enters into reinsurance treaties, agreements, investments and hedging contracts with a range of counterparties. Any failure by those counterparties to meet their obligations to the Group could have a material adverse effect on the Group's business, results of operations and financial position

The Group enters into longevity reinsurance transactions in respect of its longevity-related liabilities. The Group is therefore exposed to the failure of the counterparties to the arrangements. Should there be a default or other failure by any reinsurance counterparty to meet its obligations to the Group, the Group's ability to meet its own obligations to the relevant policyholders may be affected. This could have a material adverse impact on the Group's business, results of operations and financial position. The Group's largest reinsurance-related exposures are to Pacific Life Re, the Prudential Financial Group, SCOR Global Life SE (currently indirectly as a consequence of the PACL Reinsurance Transaction), XL Group (now AXA XL) and Reinsurance Group of America, Inc. A failure of one of these reinsurers in particular could have a material adverse effect on the Group's business, results of operations and financial position.

The Group also utilises over-the-counter derivative transactions to manage risks across its portfolio, for example, the purchase of credit protection on bonds held in negative basis packages, foreign exchange rate hedging contracts, interest rate hedging contracts, inflation delta hedging contracts and inflation volatility risk hedging contracts. The Group is therefore exposed to counterparty risk through the potential failure of one of these counterparties. A default by a hedging counterparty could have an adverse effect on the Group's business, results of operations and financial position.

Credit spread volatility may adversely affect the net unrealised value of the Group's investment portfolio

Credit spreads and credit ratings are sensitive to many factors, including changes in tax policy or legislation, regulatory requirements, changes in governmental policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, default on fixed income securities and other factors beyond the Group's control.

Any widening of credit spreads or credit rating downgrades will generally reduce the value of fixed income securities (generally or specifically), which could have a material adverse effect on the Group's regulatory capital position and may result in the Group being required to divest a portion of some of its investments in order to meet its liabilities. Credit spread tightening will generally increase the value of fixed income securities and credit rating upgrades the value of the affected securities. In the event that credit spreads widen in anticipation of a default, reduction in the value of the Group's assets may not correspond to an equivalent reduction in the value of the Group's liabilities.

Challenging conditions in the capital and credit markets may significantly impact the Group's ability to meet its liquidity needs

The Group needs liquidity in order to fund its insurance operations, as well as to meet policyholder claims and operating expenses. The Group relies on its holdings of liquid assets, investment income and premiums to meet its liquidity requirements. A lack of liquidity may prevent the Group from being able to pay its annuity obligations to policyholders as amounts fall due and also may limit the Group's ability to satisfy collateral calls as they arise under arrangements where a member of the Group has provided security to a counterparty. Difficult market conditions may reduce the availability of such liquidity sources, which could limit the ability of the Group to continue as a going concern or write new business and/or, in extreme circumstances, impact upon the Group's ability to meet its other obligations to policyholders and third parties as they arise.

The liquidity position of the Group is continually monitored. While a cash liquidity buffer exists, ongoing monitoring also allows mitigating actions to be taken at an early stage. The Group assumes conservative instantaneous market shocks to its liquidity position within certain parameters and measures the value of assets held which may be used to satisfy collateral posting requirements and also movements in the value of derivatives which may require collateral to be posted to derivative counterparties. In the event of an illiquid market, the Group may need to seek additional financing in order to meet its short-term cash flow requirements as they fall due. Depending on the availability of credit and/or the ease with which the Group can access other forms of financing (such as the debt capital markets), the Group may have difficulty in obtaining the necessary capital required to operate its business and may have to realise its investments at a reduced value. The Group seeks to mitigate liquidity risk by dedicating sufficient investment resources to liquid assets that would allow it to meet its short-term liabilities. Liquidity risk is not considered to be a major risk for the Group and is likely to affect the Group only in the event of extremely challenging market conditions.

In addition, large short-term cash flow requirements may arise from collateral calls generated by the Group's portfolio of hedging instruments such as interest rate swaps, inflation rate swaps and foreign exchange contracts. Although the Group seeks to ensure that it has adequate collateral arrangements in place to support such transactions, there can be no assurance that these arrangements will always be sufficient, particularly in times of severe market volatility.

Sourcing illiquid, bespoke, secured or collateralised assets may prove difficult in the future and investing in such assets may expose the Group and/or its subsidiaries to liquidity and regulatory risks

Part of the Group's conservative investment strategy is to invest in low-risk assets that benefit from collateral, hedging arrangements or other security and extract value from the illiquidity that is associated with the types of assets. Almost 40 per cent. of the Group's investment portfolio is or is planned to be invested in secured lending against property or other collateral. The majority of these investments are bespoke, with high levels of collateral, and returns are generated through illiquidity premiums. The Group makes asset investment decisions with an objective of ensuring that projected returns that can be generated from assets are secure and sustainable for the term of the policyholder reserves. When acquiring such assets, the Group seeks to minimise potential losses from any potential default in relation to such assets through physical or structural security or through implied or explicit sovereign support. Such assets are difficult to source because of their bespoke nature and because of regulatory constraints, notably the requirements that an asset needs to meet to be held in the matching adjustment fund and the treatment for capital purposes. Changes in applicable legislation and regulations may also affect whether the Group's current and future investment portfolio satisfies its prescribed SCR.

Changes in interest rates, inflation and foreign exchange rates may adversely affect the value of the Group's assets and liabilities

Interest rates

The Group invests in fixed income securities in order to support its annuity obligations to policyholders. Interest rate exposure therefore arises due to movements in future expectations of interest rates. The Group's solvency balance sheet is more sensitive to interest rate movements than its IFRS balance sheet. Interest rates are sensitive to many factors and fluctuations in interest rates in particular affect the returns that the Group may earn on fixed interest investments or other interest rate sensitive investments. Increases or decreases in interest rates affect the market values of the fixed income securities that the Group holds. Interest rate risk arises primarily where assets and liabilities do not respond to interest rate movements in the same way and, as noted above, it is not possible to match assets and liabilities on both a solvency and an IFRS basis. There is therefore a risk that the market value of the Group's assets is not sufficient to meet the present value of its insurance obligations or the Group's SCR, which would have a material adverse impact on the Group's business, results of operations and financial position.

As noted above, the Group hedges its liability, cash flows and exposure to interest rate risk, allowing for netting across its investment assets and insurance liabilities, by entering into a portfolio of interest rate swaps. The portfolio is constructed by analysing the sensitivity of all investment assets and insurance liabilities to movements in each of the underlying market instruments. A portfolio of interest rate swaps can then be constructed which replicates these sensitivities. Monitoring and re-hedging of the Group's exposure to interest rate swaps occur on a daily basis, and done as per the Group's risk management policy to within both IFRS and Solvency II-based tolerance metrics. However, there can be no assurance that such hedging will be effective in protecting the Group from such risk.

The Group seeks to meet cash outflows with respect to its liabilities with the cash flows and proceeds generated from its assets. As interest rates decrease or continue to remain at low levels, and investments held by the Group reach maturity, the Group may be required to reinvest the proceeds of these matured investments at lower yields, which could impact the Group's business, results of operations and financial position and particularly its capital position.

Inflation

A proportion of the Group's annuity payments are linked to published consumer and retail price indices and may be subject to caps and floors. In addition, the Group and its subsidiaries' expenses are likely to increase with some measure of inflation. Inflation, as measured by reference to such consumer and retail price indices, is therefore a continuing risk for the Group and its subsidiaries. Although some of the Group's liabilities are protected from inflation rises, inflation risk typically arises where the Group's assets and liabilities are mismatched. There is therefore a risk that movements in inflation rates (or future expectations in relation thereto) may result in the market value of the Group's assets being insufficient to meet the present value of its annuity obligations or the Group's SCR, which would have a material adverse impact on the Group's business, results of operations and financial position. In addition, a sustained fall in inflation and move to a deflationary environment may have a material adverse impact on the valuation of certain of the Group's assets and liabilities.

The Group hedges its liability, cash flows and net exposure to inflation risk by analysing the sensitivity of all investment assets and insurance liabilities to the movements in each of the underlying market instruments and constructing a portfolio of inflation rate swaps that replicate these sensitivities. Monitoring and re-hedging of the Group's inflation risk occur on a daily basis. However the Group's IFRS and solvency balance sheets exhibit different sensitivities to inflation. There can therefore be no assurance that such hedging will be effective in protecting the Group from risks associated with its exposure to changing inflation.

Foreign exchange rates

The Group principally operates in the UK and its assets and liabilities are primarily denominated in sterling. However, a small proportion of the Group's insurance obligations and investments are denominated in other currencies such as Euros and U.S. dollars. Foreign exchange rate fluctuations could affect the value of the Group's investment assets and cash flows. Foreign exchange rate exposure relating to the translation of reported earnings could impact on the Group's financial reporting ratios, gearing ratios and surplus capital position for regulatory reporting purposes.

The Group seeks to hedge its liability, cash flows and net exposure to changes in foreign exchange rates by entering into a portfolio of exchange rate swaps which also match the term of its exposure. The portfolio is constructed by analysing the sensitivity of all investment assets and insurance liabilities to movements in the exchange rates between sterling and each of the currencies to which the Group is exposed. Monitoring and re-hedging of the Group's exposure to changes in foreign exchange rates occur on a daily basis. However, there can be no assurance that such hedging will be effective in protecting the Group from risks associated with the Group's foreign exchange rate exposure.

Failure by the Group appropriately to hedge its liabilities in relation to buy-in or buy-out transactions or other annuity transactions could adversely impact the Group

In circumstances where the Group quotes pricing for a buy-in or buy-out transaction and such pricing is made available for acceptance for a defined period but the Group has not entered into hedging contracts in relation to the interest rate and inflation assumptions on which such pricing quotes are based, there is a risk that the Group may not be able to enter into appropriate hedging arrangements (or would not be able to do so at a reasonable cost) following the execution of the buy-in or buy-out transaction. The Group is further exposed more generally to execution risk in respect of hedging transactions entered into after the completion of buy-in and buy-out transactions and in respect of future replacements or renewals of such hedging arrangements. Failure by the Group adequately to hedge its liabilities could have a material impact on the Group's business, results of operations and financial position.

Events leading to a negative perception of the financial services sector as a whole could adversely affect the Group's perceived creditworthiness or credit rating as well as its business, results of operations and financial position

The Group's perceived creditworthiness and credit rating is influenced by the perception and confidence of wholesale investors in relation to the UK insurance and the financial services sectors. Factors impacting this perception include the adverse performance of investment markets, actions by regulators against organisations operating in the UK financial services sector and shock events such as significant market failures. The Group seeks wherever practicable to mitigate the effects of these risks. The financial crisis, subsequent investment performance and the low interest rate environment, together with general perceptions of the robustness of insured financial institutions (for example, the perceptions of policyholders and their advisers), may also impact customer attitudes to long-term savings. Recent regulatory actions, for example, with regard to the sale of payment protection insurance, may also adversely impact perceptions of the value of insurance products and result in changes to the regulatory and legislative environment in which the Group operates, which could adversely affect the perceived creditworthiness or credit rating of the Group, as well as its business, results of operations and financial position.

Any downgrade of the Group's and the Issuer's credit ratings could increase its borrowing cost and weaken its markets position.

The Group and the Issuer are rated by Moody's Investors Service, Inc. ("**Moody's**") and Fitch Ratings, Inc. ("**Fitch**"). Any potential downgrade of the ratings provided by one or both of the rating agencies may be detrimental to the Group's business performance and prospects. Given the existing indebtedness in the Group, the Group is dependent on its ability to access the capital markets and its cost of borrowing in these markets is influenced by the credit ratings supplied by Fitch and Moody's. Any downgrading of the credit rating could increase the Group's borrowing cost and may weaken its position in the market. Changes in the methodology and criteria used by Fitch and/or Moody's could result in downgrades that do not reflect changes in general economic conditions or the financial condition of the Group. In addition a sustained period of underperformance, operating with a high leverage position, maintaining an undercapitalised position over a prolonged period and other factors could all lead to a potential ratings downgrade.

The Issuer does not have listed equity in issue and therefore has no ready access to the equity capital markets

The Issuer does not have equity securities listed on a regulated market, nor does any other entity within the Group. The Group therefore does not have ready access to the equity capital markets.

The Shareholders are under no obligation to contribute further equity to the Group or the Issuer or their subsidiaries. Without access to further equity, the Group's ability to write large volumes of new business is constrained and therefore the future business and financial prospects of the Group may potentially suffer.

The Issuer does have debt securities listed on a regulated market but there is no guarantee that the Group or the Issuer would be able to raise further debt.

Operational and strategic risks relating to the Group's business

The Group's brand and reputation are of significant importance to its ability to attract clients and new business and any damage to that brand could have a material impact on the Group's business and profitability

As the Group expands and grows its business, its brand is becoming more recognisable and its reputation as one of the leading providers in the market in which it operates is becoming widely known. The Group is one of the largest specialist annuity insurers in the UK. As a result, any damage to the Group's brand or reputation, or a decline in policyholder, trustee, client or counterparty confidence in the Group, could have a material adverse effect on the Group's business, results of operations and financial position.

Management considers that the management of reputational risk is critical to its business. The Group's success and results are, to a large extent, dependent on the Group's brand, as well as the reputation of the Group's board of directors (the "**Board**") and senior management team (particularly its key personnel). Integrity, client trust and policyholder trust and confidence are paramount to the Group's brand and reputation. Any adverse publicity (whether well founded or not) associated with the Group, its board of directors or senior management, as well as its customer service or product offering, could result in a loss of business. A material operational loss that is publicised and any adverse regulatory or legal actions impairing the Group's brand, or any adverse publicity or fines, or any credit rating downgrade, could damage the public image of the Group and its brand and negatively affect customer confidence in the Group. This may result in a loss of current business and a downturn in new business volumes and sales, which could have a material adverse effect on the Group's business, results of operations and financial position.

The Group and its subsidiaries are reliant on their internal and external systems, processes and controls (including information technology) and any failure of such systems, processes and controls could have a material adverse effect on the Group's business

Operational risks are inherent throughout the Group's business. The Group and its subsidiaries are exposed to operational risks, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes and controls (including key outsourcing arrangements), systems, business disruptions, human error, negligence, fraud, external events and failure to attract, motivate and retain skilled personnel (in particular, key management personnel).

The Group's business is dependent on processing a large number of transactions and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods. These factors, among other things, result in significant reliance on, and require significant investment in, information technology ("**IT**"), compliance and other operational systems, personnel and processes. In addition, the Group and its subsidiaries outsources several operations, including a significant part of its UK back-office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

The Group and its subsidiaries are heavily reliant on its operational systems, business resilience systems and IT capabilities to conduct its business. IT is key to a number of the functions within the Group's business, including calculating and measuring its capital requirements, taking into account its liabilities, assessing risk exposure, producing financial and management reports, processing and retaining data relating to the liabilities which it has underwritten and maintaining accurate data and records.

Although the Group and its subsidiaries' IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational risks associated with their activities, there can be no assurance that such controls will always be effective. Although the Group and its subsidiaries have not experienced a material failure or breach in relation to its legacy and other IT systems and processes to date, they may in the future become subject to computer viruses, attempts at unauthorised access and cyber-security attacks. Any such issues may, among other things, compromise the Group's ability to monitor its position with respect to its investments, hedging, liabilities and capital position.

The Group and its subsidiaries' IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches. In the event of any damage, failure, harm to or interruption in the IT systems deployed in respect of these functions, whether as a result of human error, unauthorised usage, natural disasters or other matters outside the Group and/or its subsidiaries' control, such events could, among other things, harm the Group and/or its subsidiaries' ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its relationships with its business partners and customers. As a result, the Group's operations may be severely disrupted, or the Group may be subject to customer or counterparty complaints or litigation, and could incur significant costs which in turn could have a material adverse effect on the Group's profitability, results of operations and financial position. Similarly, any weakness in the Group's administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Neither the Group nor its subsidiaries have experienced or identified any operational risks in their systems or processes during 2018 and the first half of 2019, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations. Although the Group and its subsidiaries have disaster recovery and business continuity plans in place, there is no guarantee that these plans will be sufficient in the event of a particular issue or disaster which the Group and/or its subsidiaries' systems, processes and controls are not equipped to deal with. Any material loss or damage to the information or data stored in the Group and/or its subsidiaries' systems could significantly impair the Group's ability to conduct its business and may have an adverse effect on the Group's results of operations and financial position.

This risk factor should not be taken as implying that the Group considers that the Issuer (i) will be unable to comply with its obligations as an authorised firm regulated by the Financial Conduct Authority ("**FCA**") and the Prudential Regulation Authority ("**PRA**"), or (ii) will be unable to comply with its obligations as an applicant proposing to have the Notes admitted to the Official List of Euronext Dublin and to trading on the GEM.

The Group collects, retains and maintains policyholder and defined benefit pension scheme information and data and any failure to protect such information could have a material adverse effect on the Group

The Group is required to collect, process, retain and maintain certain information and data, including personal data. The collection, handling and retention of such data is subject to the General Data Protection Regulation ("**GDPR**") and the Data Protection Act 2018 (the "**DPA**"). For more details see the section headed "*Regulatory Overview*".

Failure by the Group or any of its third-party service providers to comply with the data protection requirements of the GDPR or the DPA could result in significant fines, censure or other action by the Information Commissioner, which could have a material impact on the Group's financial position. Any loss or unauthorised use or sharing of data held by the Group could also result in adverse publicity, which, as noted above, could affect the Group's business, results of operations and financial position.

In addition, the Group is exposed to the risk that the personal data it retains and controls could be wrongly accessed, distributed or used, whether by employees or third parties, or otherwise lost, disclosed or processed, in breach of GDPR or the DPA. If the Group, or any of the third-party service providers on which it relies, fails to adequately process, store or protect such personal data in a secure manner, or if any theft or loss of personal data were to otherwise occur, the Group could be liable. This could result in adverse publicity for the Group, which could affect the Group's business, results of operations and financial position.

The Group relies on the contributions of key individuals for the continued success of its business, the loss of which could have an impact on the Group's operations and profitability

The Group's future success depends on the continued services and performance of certain key personnel and on its ability to attract, train, motivate and retain high-quality and highly skilled personnel. The Group and its subsidiaries substantially depend upon the continued services and performance of the senior management team and the board of directors. The Group and/or its subsidiaries have entered into employment contracts or letters of appointment with these key personnel. However, no assurance can be given that they will continue to be employed by, and provide services to, the Group or its subsidiaries. The loss of their services, whether through retirement or otherwise, could have a material adverse impact on the Group's business, results of operations and financial position.

The Group's future success also requires that it continues to have the ability to attract, motivate, train and retain a growing team of employees of suitable skill and experience in all areas of the Group's business. The Group may in future be unable to attract, motivate and retain such people. The Group's continued success and profitability depends on its ability not only to attract and retain increasing numbers of staff, but also to dedicate sufficient resources to their training and professional development.

The Group relies on various third-party service providers to which it outsources key functions and services. Any loss of, or any negative financial consequences arising in connection with, the provision of these functions or services could have a material impact on the Group's business

The Group outsources certain activities to third parties and its outsourcing partners, including, among others:

- Northern Trust for its back-office and certain operational and risk management systems and SunGard who provide business continuity services;
- JLT Employee Benefits, Capita Employee Services and Willis Towers Watson who each provide individual policyholder and group pension administration services in respect of defined liability pension obligations;

In addition, in connection with Goldman Sachs' original divestment of 64 per cent. of the Group to the Blackstone Shareholders, the GIC Shareholder and the MassMutual Shareholder in 2013, and its subsequent full divestment at the end of 2017 (see the section headed "*Description of the Issuer and the Group – History and Ownership of the Group*"), the Group has been undertaking a project to separate the Group's systems and process support from those of Goldman Sachs International. The separation project is ongoing and in the interim the Group has a long-term licence to use the Goldman Sachs system and IT architecture. As a result, Goldman Sachs International continues to provide certain systems and process support to the Group, pursuant to the terms of an arm's length transitional services agreement. The migration of the Group's systems and processes from Goldman Sachs International presents a number of operational and performance risks to the Group should technical issues arise that prevent or significantly delay the effective transfer of these systems.

The Group and its subsidiaries are therefore reliant upon the services and operational processing performance of these third parties and other outsourcing partners, but the Group remains fully responsible for discharging all of its outsourced obligations pursuant to the regulatory system prescribed by, among other things, the requirements of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("**SYSC**"), the GDPR and the DPA. The Group takes care to supervise the performance of any outsourced functions, including the Group's obligations to protect the confidential information and personal data of its policyholders.

Failure by the Group to comply with its outsourcing obligations may result in a breach of the relevant rules or legislation and could give rise to criminal or civil liability and other enforcement action, as well as reputational damage.

In addition, if the services provided by such third parties or outsourcing partners were to prove to be insufficient or inadequate, result in financial losses or cease to provide services for any reason, or issues were to arise that would prevent or significantly delay the effective transfer of the Group's systems and processes from Goldman Sachs International, this could have a material adverse effect on the Group's business, results of operations and financial position. There is also a risk that the performance by the Group of any outsourced regulatory obligations may be negatively affected following the failure of, or a significant degradation in service received from, such third parties or outsourcing partners (for example, in relation to the provision of information to policyholders). The Group is also susceptible to risks associated with the potential financial instability of such third parties or outsourcing partners. The Group's risk management activities and high-value functions are managed internally in order to mitigate this risk and to ensure the direct oversight of key functions and of third-party service providers.

This risk factor should not be taken as implying that the Group considers that the Issuer (i) will be unable to comply with its obligations as an authorised firm regulated by the FCA and the PRA, or (ii) will be unable to comply with its obligations as an applicant proposing to have the Notes admitted to the Official List of Euronext Dublin and to trading on the GEM.

Legal and regulatory risks relating to the Group's business (including those relating to standards of accounting and taxation)

A change of law or regulation or changes in the interpretation or operation of existing legislation, regulation or policies may adversely affect the Group's business, results of operations and financial position

The Group is subject to financial regulation in the UK and the UK regulatory framework that applies to life insurance companies. The Issuer is authorised by the PRA and regulated by the PRA and the FCA. The PRA has responsibility for the prudential regulation of insurers and the FCA has responsibility for the regulation of conduct of business.

As the regulatory approach of the PRA and FCA evolves, there may be future changes to the nature of, or policies for, prudential regulation and conduct of business supervision, which could lead to a period of uncertainty for the Group. Such change can come in the form of a change in law or regulation. For example, (i) Solvency II (which became effective on 1 January 2016) increased the capital requirements on the Issuer and led to constraints on investments and (ii) the GDPR which became effective on 25 May 2018 and which increased the territorial scope of the existing EU data protection framework and imposes stronger sanctions on those who breach it, amongst other things. Alternatively, the regulator may reinterpret or place new emphasis on an existing piece of law or legislation, for example the PRA published their Policy Statement 31/18 addressing the minimum calibrations to value the No Negative Equity Guarantee for the deferment rate and the property volatility in the calculation of the Effective Value Test (**EVT**) in connection with equity release mortgages. The Group already met the EVT and the outcome of the Policy Statement had no impact on the Group's solvency position at the time of publication. The PRA are also currently consulting on other aspects covering the appropriate capital treatment of equity release mortgages (consultation paper CP7/19 "Solvency II: equity release mortgages – Part 2"), including the frequency with which the deferment rate and volatility parameter can be updated, how drawdown products should be treated and principles for assessing insurers' internal models. Given the recent approval of the Group's partial internal model ("**PIM**") and also in particular the set of assumptions the Group adopts to underwrite such mortgages, management expects the impact of this consultation paper on the Group to be minimal.

No assurance can be given about the likelihood of further changes to the regulatory regime. Any such changes may have a material adverse effect on the Group (in particular, the Issuer), its strategy and profitability, and therefore on the Group's business, results of operations and financial position. The Group maintains ongoing dialogue with the relevant regulators and industry bodies in order to ensure ongoing compliance and the ability to react quickly to any unanticipated changes.

The regulation of sectors in which the Group invests may also change. For example, the Group has material exposure to loans secured on ground rents, loans to social housing companies and equity release mortgages.

In addition to the already changing regulatory landscape, it is anticipated that Brexit may result in changes to the United Kingdom and European Union's regulatory system. While the business of the Group is primarily situated in the United Kingdom, some of the changes to the regulatory system may affect the business of the Group (positively or negatively). Changes to law and regulation may also affect the regulation of United Kingdom business if the United Kingdom and European Union regulatory systems diverge. As a result, it is possible that Brexit may require the Group to take mitigating action, or to change parts of its business.

The Issuer makes use of its passporting rights to service customers situated in member states of the European Union (other than the United Kingdom). 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 also affect the ability of the Group to rely on European Union market freedoms, in particular the free movement of services pursuant to Article 56 of the Treaty on the Functioning of the European Union and thus the operations and ongoing profitability of the Group may be impaired.

While it is anticipated that transitional arrangements in relation to Brexit will ensure that more permanent arrangements can be made for the servicing of customers situated in member states of the European Union (other than the United Kingdom), it is possible that no such arrangements are agreed and that the Issuer's ability to operate such policies will be impaired. See also "*Geopolitical issues affecting the UK more generally may have an adverse impact on the Group*" and "*The Group's business is concentrated in the UK and is exposed to events affecting the UK*".

The Issuer is required to obtain and maintain certain permissions from the PRA and the FCA and to comply with various rules and regulations in order to conduct the Group's insurance business lawfully in the UK. For more details about the regulatory environment within which the Issuer operates, please see the section headed "*Regulatory Overview*". Failure to comply with any regulatory requirements may result in the PRA and/or the FCA taking action against the Group (in particular, the Issuer), which could include imposing fines or sanctions or limiting or revoking the necessary permissions. Such action may also result in the Group being unable to carry on its insurance business and therefore may adversely affect the Group's business, results of operations and financial position.

Individual and groups of customers may refer their disputes with the Group to the Financial Ombudsman Service

Disputes relating to the sale or servicing of financial services products by the Group in the United Kingdom are subject to the FOS regime. The FOS exists to resolve disputes involving individual policyholders.

From time to time, decisions taken by the FOS (or, in certain circumstances, the Pensions Regulator) may, if extended to a particular class or grouping of policyholders, have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is required to comply with capital adequacy requirements and failure to do so could have a material adverse effect on the Group's business

The Group is required to maintain reserves of assets to match its best estimate of its liabilities under the policies written as well as a prudent risk margin. The excess of assets over technical liabilities 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. The Group is also required to maintain sufficient Own Funds to meet its SCR under the Solvency II regime under the standard formula.

The Group is in the process of developing a full internal model to calculate the SCR. The model may lead to an increase or a decrease in the size of the total SCR, but the development is still in the early stages.

The Group maintains capital at target levels over and above a Group SCR, in accordance with its stated risk appetite. If the Group's excess over SCR is below these target levels, discretionary payments outside of the Group could continue to be made. However, the Board would need to consider the circumstances leading to the shortfall, the expected timeline for restoring the Group's solvency capital to the target levels, as well as implications for other key financial metrics. In terms of management's policy for maintaining coverage, there is a formal target at the Group and the Issuer level to maintain a coverage of at least 130 per cent. of the regulatory minimum SCR.

The Group is currently permitted to apply a "matching adjustment" to certain long-term liabilities that are closely matched by an assigned matching adjustment portfolio of assets of equivalent nature, term and currency ("**Matching Adjustment**"). This Matching Adjustment reduces the best estimate of the liabilities and partially mitigates the sensitivity of the balance sheet to changes in the market prices of assets held in the matching adjustment fund. The Matching Adjustment is subject to strict criteria and ongoing compliance in relation to maintenance of close matching, asset and liability characteristics and segregation of the management of the assigned matching adjustment portfolio. The Group has permission from the PRA to apply the Matching Adjustment in respect of most of its liabilities and, although the Issuer is not aware of any current matters or circumstances that might reasonably be expected to result in the withdrawal of permission to use the Matching Adjustment, this may change in the future.

The Group has also been granted use of transitional solvency relief. The benefit of the transitional provisions will be phased out over a 16 year period from 1 January 2016 and there is some uncertainty over the way in which it may be calculated in the future. While the Issuer (and therefore, the Group) is currently able to meet its SCR, changes in legislation, regulation, regulatory requirements or market conditions may result in the Issuer being unable to do so in the future. This could lead to the PRA limiting or revoking the permissions which the Issuer requires in order to carry out insurance business, which could materially impact the Group's business, results of operations and financial position.

In relation to the liabilities that the Issuer has reinsured under the outstanding PACL Reinsurance Transaction and certain defined benefit pension schemes which the Issuer has insured by way of buy-in transactions only, an adverse event which results in a significant deterioration in the Issuer's solvency could result in the Issuer's counterparty having the right to recapture the relevant assets and liabilities. The Issuer may in the future enter into new reinsurance or buy-in insurance policies where a defined benefit pension scheme trustee's (or other counterparty's) recapture right is a feature of the policy. Such recapture could have an adverse effect on the Group's business, results of operations and financial position.

The Group is subject to the FCA's TCF principles, which are central to the FCA's regulatory approach

There is a clear focus in the UK on the fair treatment of customers, in particular on the way in which the insurance industry sells and administers insurance policies and other products. This aligns with the FCA's operational objective, as established by FSMA, to secure the appropriate degree of protection for consumers.

The FCA's treating customers fairly ("**TCF**") regime was originally implemented by its forerunner, the Financial Services Authority ("**FSA**"). It requires the Group to have due regard to the interests of its customers in the conduct of its business, with an overriding requirement to treat them fairly. This requirement exists alongside other, more specific, rules contained in the prudential regime and is increasingly being seen by the FCA and authorised insurance companies as governing all aspects of an insurance company's dealings with its customers. The meaning of the duty has not been defined beyond the ordinary English meaning of the word "fair", although the FCA has published examples of what in its view constitutes fair treatment in a series of case studies.

The FCA's regulatory approach is also underpinned by a strong conduct risk agenda. In particular, the FCA has made clear that it is determined to create a culture of good conduct at every level of the financial services industry to make markets work well and to produce a fair deal for customers. The FCA therefore expects all firms to have a strong conduct risk framework in place to facilitate a culture that delivers good outcomes both for consumers and the market as a whole.

The FCA's key aim in relation to conduct risk is to ensure that firms do the right thing for their customers while keeping them, and the integrity of the markets in which they operate, at the heart of everything that they do. Firms should seek to promote good behaviour across all aspects of their organisation and to develop a culture in which it is clear that there is no room for misconduct.

Any determination by the FCA that the Group is failing to respect, and pay due regard to, the interests of its policyholders could lead to enforcement action against the Group, which could have a material adverse effect on the Group's reputation and therefore its business, results of operations and financial position. The Group has a Customer and Conduct Committee (chaired by a Non-Executive Director) in place to monitor such risks and ensure they are escalated to the appropriate personnel within the Group. The chief financial officer, chief operation officer, general counsel and chief compliance officer all sit on this committee.

The Group is subject to competition and consumer protection legislation, a failure to comply with which could result in the imposition of fines or sanctions on the Group or a requirement to make significant changes to the Group's business model

The Group is required to comply with competition laws and regulations, including those relating to consumer protection (such as consumer credit), enforced by the UK Competition and Markets Authority (the "**CMA**"), the FCA and the European Commission. The competition laws and regulations applicable to the Group relate to matters such as price fixing, collusion and other forms of anti-competitive behaviour. The FCA is also concerned with the promotion of competition in the UK.

A determination that the Group has failed to comply with any applicable laws and/or regulations relating to matters of competition or consumer protection, or any regulatory action in respect thereof, could result in fines and losses, as well as adverse publicity for the Group. This could have a material impact on the Group's reputation as well as its business, results of operations and financial position.

The resolution of several issues affecting the financial services industry could have a negative impact on the Group's reported results or on its relations with current and potential customers

The Group and its subsidiaries are, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, changes to the applicable tax regimes, and regulatory reviews on transactions, the Group's products and industry practices. Although such actions cannot be predicted, the results of such reviews could result in adverse publicity, as well as impact the Group's business, results of operations and financial position.

Changes to tax legislation could materially impact the Group's business and/or decisions of customers

The Group is currently in the process of negotiating an advanced pricing agreement with the UK and US tax authorities in relation to Rothesay Asset Management US, the outcome of which is uncertain and this may affect the Group's financial position or future investment strategy. Corporate and individual tax rules, including those relating to the insurance industry, and international tax treaties are subject to change and any changes could have both a prospective and retrospective impact on the Group's business, results of operations and financial position. The introduction of new tax legislation, or amendments to existing tax rules or rates (individual or corporate) or international tax treaties, could materially impact the Group's business and the choices policyholders make with respect to the nature of their relationship with the Group and/or the Group's policies. Although the implications of any future changes in tax legislation, rules or treaties for the Group, and its subsidiaries and/or policyholders cannot be predicted, specific changes to the taxation of insurance companies could have a material adverse effect on the Group's business, results of operations and financial position. In addition, significant tax disputes with tax authorities, and any change in the tax status of any member of the Group and/or their subsidiaries, or in taxation legislation or its scope or interpretation, could affect the Group's financial position and results of operations.

Changes to the current VAT rules may result in VAT being chargeable on certain outsourcing agreements of the Group

Group companies currently do not pay significant amounts of value added tax chargeable under or pursuant to the Value Added Tax Act 1994 or the EU Directive 2006/112/EC on the common system of value added tax and any other sales, purchase or turnover tax of a similar notice, whether imposed in the United Kingdom or elsewhere ("**VAT**") in respect of services they receive under their outsourced services agreements for policy administration. If the amount of VAT payable were to increase then this would increase the Group's costs to the extent that the relevant agreements did not contain adequate protection against VAT being charged or increased. VAT charged on goods and services is largely irrecoverable for financial services groups such as the Group. Services supplied under the outsourced services agreements are largely exempt from VAT under the United Kingdom's insurance intermediaries' exemption. The Court of Justice of the European Union (the "**CJEU**") has considered the scope of the insurance intermediaries' exemption in a number of cases, most recently in March 2016, and ruled that certain types of outsourced insurance services were subject to VAT. The United Kingdom's interpretation of the insurance intermediaries' exemption is out of step with these judgments. However, the United Kingdom government has historically been supportive of a wider exemption. It remains to be seen how the impact from Brexit, during transition and thereafter, will affect this view and the applicability of such CJEU decisions. If any such changes are effected, this may lead to the conclusion that certain services under the Group's outsourced services agreements for policy administration would be treated as subject to VAT. Although certain of the outsourced services agreements have a measure of protection against such changes, since VAT is largely irrecoverable by the Group, such treatment could have a material adverse effect on the Group's business, results, financial condition and prospects.

Changes to IFRS generally or specifically for insurance companies may have an adverse impact on the Group's business

Any changes or modification of IFRS or other accounting policies may require a change in the reporting of the Group's future results or a retrospective adjustment of reported results. For example, IFRS 17, the International Financial Reporting Standard covering accounting for insurance contracts is expected to significantly change the way in which insurance contract liabilities are presented and reported. Adoption of the standard is currently proposed to be effective from 1 January 2022 and is likely to mean that profit arising from writing new annuity business emerges much more slowly than under the current standard. This in turn will have a material impact on the Group's balance sheet and future results and may also potentially impact on activity such as the payment of dividends and payment of interest on the Notes.

It is not clear how the change to insurance company reporting will be interpreted by investors, rating agencies and other stakeholders nor how it will impact the timing and amount of corporation tax.

The Group and/or its subsidiaries may be subject to litigation, legal proceedings and/or regulatory investigations in the future (including investigation and intervention by the FCA and/or the PRA), which could have a material adverse effect on its business and results of operations

Since the financial crisis, the PRA and the FCA have increased their oversight of regulated and authorised entities and have adopted a more direct style of regulation, which means that PRA-authorised entities, and PRA and/or FCA regulated firms, including the Issuer, are facing increasing supervisory scrutiny. The PRA and the FCA have the power to take a range of investigative, disciplinary and enforcement actions, penalties for which can include public censure, restitution, fines and sanctions. The PRA and the FCA may also make enquiries of the firms which they regulate and require such firms to provide particular information or documents to them. The PRA and the FCA may take such action or make such enquiries in relation to aspects of the Group or its subsidiaries' business and operations, including its systems and controls, IT systems, capital requirements, outsourcing functions and permitted investments. Regulatory action may be specific to individuals, the Group, its subsidiaries, or part of more general action in respect of firms that operate in the insurance or financial services industry. The Group maintains regular dialogue with its regulators to ensure compliance with applicable regulatory standards. The Group, via regular dialogue/meetings, operates in an open and cooperative manner with both the PRA and FCA at all times. In the normal course of its business, the Group is engaged in discussions with the PRA and FCA in relation to a range of business matters. There are currently no issues of material regulatory concern under discussion.

The Group and/or its subsidiaries, in line with all other regulated firms, may in the future be subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of business and operations that are specific to the Group or its subsidiaries, or that are common to companies that operate in its markets. Legal actions and disputes may arise under contracts, legislation and regulations (including tax) or from a course of conduct taken by the Group or its subsidiaries, and may be class actions. Although management considers that it has made appropriate provision for the costs of litigation and regulatory matters, without prejudice to the statement at paragraph 16 of the section "*General Information*", no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought by claimants or regulators, together with other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an outcome could, from time to time, have an adverse effect on the Group's reputation, business, results of operations or financial position. However, it is not possible to predict the significance of any proceedings that may be brought against, or any investigations that may be conducted into, the Group or its subsidiaries, nor is it possible to predict with any degree of precision the financial impact of a successful claim, fine or penalty to which the Group or its subsidiaries may become subject. While management considers that its systems, controls and operations are compliant with applicable regulations, given the growth of the Group's business since it was established, there is a risk that one or more regulators could consider that the Group or any of its subsidiaries have failed to fully comply with all relevant regulatory requirements or has not undertaken the appropriate corrective action required.

Risks relating to the Notes

Risks relating to the Structure of the Notes

The Issuer may redeem the Notes at par before maturity in certain circumstances, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Notes

The Notes may, subject as provided in Condition 6, be redeemed before the Maturity Date at the sole discretion of the Issuer (i) in the event of certain specified events relating to taxation, or (ii) at any time following a Capital Disqualification Event, in each case at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

The Issuer currently expects the Notes to qualify (subject to any applicable limitations on the amount of such capital) as Tier 3 Capital. However, there is a risk that, following any change to the Relevant Rules, the Notes will cease to qualify as Tier 3 Capital of the Issuer or all or any part of the Group (which part includes the Issuer and at least one other member of the Group), which would entitle the Issuer to redeem the Notes early at their principal amount, together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

The cash paid to investors upon such a redemption may be less than the then current market value of the Notes or the price at which investors purchased the Notes. Subject to the contractual and regulatory restrictions on doing so set out in the Conditions, the Issuer might be expected to redeem the Notes when its cost of borrowing for an instrument with a comparable regulatory capital treatment at the time is lower than the interest payable on them. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest payable 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 the light of other investments available at that time.

The Notes are unsecured and subordinated obligations of the Issuer. On a winding-up of the Issuer, investors in the Notes may lose their entire investment in the Notes

The Issuer's payment obligations under the Notes will be unsecured and will be subordinated (i) on a winding-up of the Issuer, and (ii) if an administrator is appointed to the Issuer and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of all policyholders and other unsubordinated creditors of the Issuer and to claims in respect of any subordinated indebtedness of the Issuer other than indebtedness which ranks, or is expressed to rank, *pari passu* with or junior to the Notes. Accordingly, the assets of the Issuer would be applied first in satisfying all senior-ranking claims in full, and payments would be made to holders of the Notes, *pro rata* and proportionately with payments made to holders of any other *pari passu* instruments (if any), only if and to the extent that there are any assets remaining after satisfaction in full of all such senior-ranking claims. If the Issuer's assets are insufficient to meet all its obligations to senior-ranking and *Pari Passu* Creditors, the holders of the Notes will lose all or some of their investment in the Notes.

If the Issuer's financial position deteriorates such that there is an increased risk that the Issuer may be wound up or enter into administration, 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 the Issuer is wound up or enters into administration.

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

No limitation on the Issuer issuing further securities

There is no contractual restriction on the Issuer creating liabilities ranking equally with or senior to the Notes and no restriction on the amount of securities which the Issuer may issue or guarantee (as applicable), which securities or guarantees rank *pari passu* with the Notes. The issue, guarantee or granting of security in relation to any other liabilities may reduce the amount recoverable by Noteholders on a winding-up of the Issuer. In a winding-up of the Issuer and after payment of the claims of their respective more senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders under the Notes.

Payments of interest on, and redemption of, the Notes must, under certain circumstances, be deferred by the Issuer

The payment obligations of the Issuer under the Notes are conditional upon (i) there being no breach of the Solvency Condition (as described in Condition 2*(b)*) at the time of such payment and no such breach occurring as a result of such payment, (ii) in the case of the payment of interest, there being no Regulatory Deficiency Interest Deferral Event at the time of such payment and no such event occurring as a result of such payment, and (iii) in the case of the redemption of the Notes, there being no Regulatory Deficiency Redemption Deferral Event at the time of such payment and no such event occurring as a result of such payment and (if then required) regulatory consent or the provision of non-objection having been obtained and such redemption being made in compliance with the Relevant Rules at such time. Any amounts of principal, interest, Arrears of Interest and any other amounts in respect of the Notes which cannot be paid on the scheduled payment date by virtue of such provisions must be deferred by the Issuer and non-payment of the amounts so deferred shall not constitute a default under the Notes or the Trust Deed for any purpose, including enforcement action against the Issuer.

Any interest in respect of the Notes so deferred will, so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest. The holders of the Notes have no right to require payment of Arrears of Interest, and Arrears of Interest will become payable only at the discretion of the Issuer or upon the earliest of the dates set out in Conditions 5*(c)*(i) to 5*(c)*(iii).

If redemption of the Notes is deferred, the Notes will only become due for redemption in the circumstances described in Conditions 6*(a)*(i), 6*(a)*(iv) and 6*(a)*(v).

The circumstances in which a Regulatory Deficiency Interest Deferral Event or a Regulatory Deficiency Redemption Deferral Event may occur are dependent upon the solvency position of the Issuer, the Group and the insurance undertakings within the Group from time to time under the Relevant Rules, which themselves may be subject to amendment or change from time to time. Events which constitute a Regulatory Deficiency Interest Deferral Event could include, without limitation, any event which causes any Minimum Capital Requirement (including any minimum consolidated group Solvency Capital Requirement) applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached. Events which constitute a Regulatory Deficiency Redemption Deferral Event could include, without limitation, any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached or the winding-up or administration of any insurance undertaking within the Group where the claims of the policyholders of such insurance undertaking may or will not be met. In each case, where such event is an event which under the Relevant Rules means that the Issuer must defer payments on the Notes in order that the Notes qualify as Tier 3 Capital under the Relevant Rules.

Any actual or anticipated deferral of interest or redemption 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. 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 securities or instruments that do not require deferral of interest or principal, and may be more sensitive generally to adverse changes in the Issuer's financial position.

The terms of the Notes may be modified, or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances, subject to certain restrictions

In the event of certain specified events relating to taxation or the Notes ceasing to qualify as Tier 3 Capital of the Issuer, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (in the case of events relating to taxation or a Capital Disqualification Event), Qualifying Tier 3 Securities, without the consent of the Noteholders.

Qualifying Tier 3 Securities must, among other things, have terms not materially less favourable to an investor than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial adviser of international standing (which, in either case, is independent of the Issuer). However, there can be no assurance that, due to the particular circumstances of a Holder of Notes, such Qualifying Tier 3 Securities will be as favourable to a particular investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Qualifying Tier 3 Securities are not materially less favourable to holders than the terms of the Notes.

The terms of the Notes may be modified with the consent of specified majorities of the Noteholders at a duly convened meeting, and the Trustee may consent to certain modifications to the Notes, or substitution of the Issuer, without the consent of the Noteholders

The Trust Deed constituting the Notes contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed constituting the Notes also provides that, subject to the prior supervisory approval from the UK Regulator being obtained (to the extent that such supervisory approval is required), the Trustee may (except as set out in the Trust Deed), without the consent of Noteholders, agree to certain modifications of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes (if in the opinion of the Trustee such is not materially prejudicial to the interests of the Noteholders) or to the substitution of another company as principal debtor under the Notes in place of the Issuer in the circumstances described in Condition 11.

Restricted remedy for non-payment when due

In accordance with the current requirements for Tier 3 Capital, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up or administration and/or claiming in the liquidation of the Issuer. In particular, a deferral of payments as described in the section "*Payments of interest on, and redemption of, the Notes must, under certain circumstances, be deferred by the Issuer*" shall not constitute a default under the Notes or the Trust Deed for any purpose, including enforcement action against the Issuer.

Risks relating to the Notes generally

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.

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.

Integral multiples of less than £100,000

The denomination of the Notes is £100,000 and integral multiples of £1,000 in excess thereof. Accordingly, it is possible that the Notes may be traded in the Clearing Systems in amounts in excess of £100,000 that are not integral multiples of £100,000. Should definitive Notes be required to be issued, they will be issued in principal amounts of £100,000 and higher integral multiples of £1,000 but will in no circumstances be issued to Noteholders who hold Notes in the Relevant Clearing System in amounts that are less than £100,000.

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

The Issuer may not be liable to pay certain taxes

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the UK or any authority therein or thereof having power to tax, unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders in respect of payments of interest after the withholding or deduction shall equal the amounts which would have been receivable in respect of interest on the Notes in the absence of such withholding or deduction.

Potential investors should be aware that neither the Issuer 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 UK or any authority therein or thereof having power to tax is imposed on repayments of principal. As such, the Issuer would not be required to pay any Additional Amounts 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.

Risks relating to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, interest rate risk, exchange rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, 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 with similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market including in circumstances where a significant proportion of the Notes are held by a limited number of initial investors.

If the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound up or enter into administration, or if at any time there is any actual or anticipated deferral of interest or redemption in accordance with the Conditions, such circumstances can be expected to have a material adverse effect on the market price of the Notes, and could increase volatility and/or reduce liquidity in the market (if any) for 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 which 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.

If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition and/or the solvency position of the Issuer deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes or redeem the Notes.

Interest rate risk

Investment in Notes involves the risk that changes in market interest rates after the issue date may adversely affect the value of the Notes.

In particular, 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**"). 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.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in pounds 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 pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds 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 pounds 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.

Effect of credit rating reduction

The value of the Notes is expected to be affected, in part, by investors' general appraisal of the Issuer's creditworthiness. Such perceptions are generally influenced by the ratings accorded to the Issuer's outstanding securities by standard statistical rating services. A reduction in the rating, if any, accorded to outstanding debt securities of the Issuer by one of these rating agencies could result in a reduction in the trading value of the Notes. See also the risk factor entitled "*Credit Rating*" above.

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

The Notes will be issued in global form. While the Notes are in global form, 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 remain in global form, the Issuer will discharge its payment obligations under the Notes by making payments 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 Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Notes held through Euroclear or Clearstream, Luxembourg.

DOCUMENTS INCORPORATED BY REFERENCE

This Information Memorandum should be read and construed in conjunction with the following:

(1) the audited consolidated financial statements of RHUK for the year ended 31 December 2016 (together with the audit report prepared in connection therewith), which appear on pages 50 to 95 of RHUK's Annual Report and Accounts for the year ended 31 December 2016 (the "**RHUK 2016 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1025/rothesay-life-annual-report-and-accounts.pdf;

(2) the audited consolidated financial statements of RHUK for the year ended 31 December 2017 (together with the audit report prepared in connection therewith), which appear on pages 56 to 103 of RHUK's Annual Report and Accounts for the year ended 31 December 2017 (the "**RHUK 2017 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1178/rothesay-life-2017-annual-report-and-accounts.pdf;

(3) the audited consolidated financial statements of RHUK for the year ended 31 December 2018 (together with the audit report prepared in connection therewith), which appear on pages 52 to 101 of RHUK's Annual Report and Accounts for the year ended 31 December 2018 (the "**RHUK 2018 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1316/rothesay-life-holdco-uk-limited-annual-report-2018.pdf;

(4) the audited consolidated financial statements of the Issuer for the year ended 31 December 2016 (together with the audit report prepared in connection therewith), which appear on pages 21 to 87 of the Issuer's Annual Report and Accounts for the year ended 31 December 2016 (the "**Issuer 2016 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1219/rothesay-life-plc-2016-statutory-accounts.pdf;

(5) the audited consolidated financial statements of the Issuer for the year ended 31 December 2017 (together with the audit report prepared in connection therewith), which appear on pages 21 to 83 of the Issuer's Annual Report and Accounts for the year ended 31 December 2017 (the "**Issuer 2017 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1218/rothesay-life-plc-2017-statutory-accounts.pdf;

(6) the audited consolidated financial statements of the Issuer for the year ended 31 December 2018 (together with the audit report prepared in connection therewith), which appear on pages 17 to 60 of the Issuer's Annual Report and Accounts for the year ended 31 December 2018 (the "**Issuer 2018 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1313/rothesay-life-plc-annual-report-2018.pdf;

(7) the Solvency and Financial Condition Report 2016 for the year ended 31 December 2016, which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1022/rothesay-life-sfc-report.pdf;

(8) the Solvency and Financial Condition Report 2017 for the year ended 31 December 2017, which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1183/rothesay-life-sfcr-2017.pdf; and

(9) the Solvency and Financial Condition Report 2018 for the year ended 31 December 2018, which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1310/rothesay-life-sfcr-2018.pdf.

Such documents shall be incorporated in and form part of, this Information Memorandum, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Information Memorandum 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 Information Memorandum. Those parts of the documents incorporated by reference in this Information Memorandum which are not specifically incorporated by reference in this Information Memorandum are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Information Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been delivered, upon the written request of any such person, a copy of any or all of the documents which, or portions of which, are incorporated herein by reference. Written requests for such documents should be directed to the Issuer at its registered office set out at the end of this Information Memorandum.

OVERVIEW

*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 Information Memorandum. Terms which are defined in the section headed "Terms and Conditions of the Notes" have the same meanings when used in this overview, and references herein to a numbered "**Condition**" shall refer to the relevant Condition in the section headed "Terms and Conditions of the Notes".*

Notes	£300,000,000 3.375 per cent. Subordinated Notes due 2026.
Issuer	Rothesay Life Plc
Sole Lead Manager	Morgan Stanley & Co. International plc
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent	Citibank N.A., London Branch
Registrar and Transfer Agent	Citibank N.A., London Branch
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. 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 and Subordination	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders (and the Trustee on their behalf) against the Issuer are subordinated in a winding-up (other than an Approved Winding-up) of the Issuer or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, in accordance with Condition 2*(a)* and the provisions of the Trust Deed.
Solvency Condition	Except in a winding-up, all payments in respect of the Notes (including, without limitation, payments of interest, Arrears of Interest and principal) will be conditional upon the Issuer satisfying the solvency condition described in Condition 2*(b)* (the "**Solvency Condition**"), and no amount will be payable in respect of the Notes until the same can be paid in compliance with the Solvency Condition.
Interest	The Notes will bear interest from (and including) the Issue Date to (but excluding) the Maturity Date at the rate of 3.375 per cent. per annum. Interest will be payable (subject as provided under "*Deferral of Interest*") annually in arrear on each Interest Payment Date.
Interest Payment Dates	12 July of each year, commencing 12 July 2020.
Deferral of Interest	The Issuer will be required to defer any payments of interest on the Notes which would otherwise be due on any Interest Payment Date if (i) such payment cannot be made in compliance with the Solvency Condition, or (ii) a Regulatory Deficiency Interest Deferral Event

	has occurred and is continuing, or would occur if such payment of interest was made on such Interest Payment Date. "**Regulatory Deficiency Interest Deferral Event**" means any event (including, without limitation, any event which causes any Minimum Capital Requirement (including any minimum consolidated group Solvency Capital Requirement) applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under the Relevant Rules means that the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 3 Capital under the Relevant Rules). See Condition 5*(a)*.
Arrears of Interest	Any interest in respect of the Notes not paid on an Interest Payment Date as a result of (i) the occurrence of a Regulatory Deficiency Interest Deferral Event, or (ii) the operation of the Solvency Condition, together with any other interest in respect of the Notes not paid on an earlier Interest Payment Date, will, so long as the same remains unpaid, constitute "**Arrears of Interest**". No interest will accrue on Arrears of Interest. See Condition 5*(c)*. Arrears of Interest may be paid, in whole but not in part, at any time at the election of the Issuer (subject to regulatory consent (if then required) and to the Solvency Condition and provided that a Regulatory Deficiency Interest Deferral Event is not subsisting and would not occur upon payment of the same) upon notice to the Noteholders, the Trustee, the Registrar and the Principal Paying Agent, and in any event all Arrears of Interest will (subject, in the case of paragraph (i) and (iii) below, to regulatory consent (if then required) and to the Solvency Condition) become due and payable upon the earliest of the following dates: (i) the next Interest Payment Date which is not a Mandatory Interest Deferral Date and on which a scheduled payment of interest in respect of the Notes (or any part thereof) is made or is required to be made (other than a voluntary payment of Arrears of Interest); or (ii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend; or (iii) the date of any redemption or purchase of Notes by or on behalf of the Issuer or any of its Subsidiaries pursuant to Condition 6 (subject to the deferral of such redemption pursuant to Condition 2*(b)* or Condition 6*(a)*).

Redemption at Maturity	Unless previously redeemed or purchased and cancelled, the Notes will, subject as provided under "*Deferral of Redemption*", be redeemed on 12 July 2026.
Deferral of Redemption	The Issuer will be required to defer any scheduled redemption of the Notes (whether at maturity or if it has given notice of early redemption in the circumstances described under "*Early Redemption at the Option of the Issuer upon the occurrence of a Tax Event or a Capital Disqualification Event*") if (i) the Notes cannot be redeemed in compliance with the Solvency Condition, (ii) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed, or (iii) (if then required) regulatory consent has not been obtained or redemption cannot be made in compliance with the Relevant Rules at such time. In the event of any deferral of redemption of the Notes, the Notes will become due for redemption only in the circumstances described in Condition 6*(a)*. "**Regulatory Deficiency Redemption Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing or any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and 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 means that the Issuer must defer or suspend repayment or redemption of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 3 Capital under the Relevant Rules).
Early Redemption at the Option of the Issuer upon the occurrence of a Tax Event or a Capital Disqualification Event	The Issuer may, subject to certain conditions and upon notice to Noteholders, the Trustee, the Registrar and the Principal Paying Agent, at any time, elect to redeem the Notes, at their principal amount together with Arrears of Interest (if any) and any other accrued and unpaid interest thereon to (but excluding) the date of redemption, if a Tax Event or Capital Disqualification Event has occurred and is continuing (or, in the case of a Capital Disqualification Event, is expected to occur within the forthcoming period of six months, as described in Condition 6*(d)*). A "**Tax Event**" will occur if: (i) as a result of a Tax Law Change (as defined in Condition 6 *(c)*(i)), in making any payments on the Notes, the Issuer has paid or will, or would on the next payment date be required to pay, Additional Amounts (as defined in Condition 8) on the Notes and the Issuer cannot avoid the foregoing in connection

	with the Notes by taking measures reasonably available to it; or (ii) as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date: (a) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced, or (b) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist), and, in each such case, the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or (iii) as a result of a Tax Law Change, the Issuer suffers or would suffer any other material adverse tax consequence in connection with the Notes in the United Kingdom and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it. A "**Capital Disqualification Event**" is deemed to have occurred if, as a result of any change to (or change to the interpretation by any court or authority entitled to do so of) the Relevant Rules, the whole or any part of the principal amount of the Notes is excluded from counting as Tier 3 Capital for the purposes of the Issuer or the Group as a whole, 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 (other than a limitation derived from any transitional or grandfathering provisions under the Relevant Rules).
Substitution and Variation at the Option of the Issuer	The Issuer may, subject to certain conditions and upon notice to Noteholders, the Trustee, the Registrar and the Principal Paying Agent, at any time, elect to substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they remain or become Qualifying Tier 3 Securities if, immediately prior to the giving of the relevant notice to the Noteholders, the Trustee, the Registrar and the Principal Paying Agent, a Tax Event or Capital Disqualification Event has occurred and is continuing (or, in the case of a Capital Disqualification Event, is expected to occur within the forthcoming period of six months, as described in Condition 6*(d)*).
Additional Amounts	Payments of principal and interest (including, without limitation Arrears of Interest) by or on behalf of the Issuer in respect of the Notes will be made free and clear of, and without deduction or withholding for or on account of United Kingdom tax, unless such withholding or deduction is required by law. If any such withholding

	or deduction is required by law, the Issuer will pay additional amounts in relation to interest (including, without limitation, Arrears of Interest) (“**Additional Amounts**”) (but not in respect of any payments of principal) as will result in receipt by the Noteholders of such amounts equal to the amounts of interest (including, without limitation, Arrears of Interest) as would have been received by them had no such withholding or deduction been required, subject to some exceptions, as described in Condition 8.
Events of Default and Enforcement	If (i) a default is made for 14 days or more in the payment of any interest (including, without limitation, Arrears of Interest and any other amount due in respect of the Notes) or principal due in respect of the Notes or any of them, or (ii) a winding-up of the Issuer (other than an Approved Winding-up) occurs or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend, then the Trustee in its discretion may, and if so requested by Noteholders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject, in each case, to its having been indemnified and/or secured and/or prefunded to its satisfaction): (a) in the case of (i) above, institute proceedings for the winding-up of the Issuer; and (b) in the case of each of (i) and (ii) above, prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer (such claim being for such amount, and being subordinated in the manner, as is provided in the Conditions), but (in either case) 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. No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to Condition 10*(a)*, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or the provision of non-objection from, the UK Regulator which the Issuer shall confirm in writing to the Trustee.
Modification	The Trust Deed will contain provisions for convening meetings of Noteholders to consider any matter affecting their interests, pursuant to which defined majorities of the Noteholders may consent to the modification or abrogation of any of the Conditions or any of the provisions of the Trust Deed, and any such modification or abrogation shall be binding on all Noteholders.
Substitution of the Issuer	The Trustee may, without the consent of the Noteholders but subject to to any notifications to, or supervisory approval from, the UK Regulator (if any) as may then be required by the UK Regulator or the Relevant Rules, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute of the Issuer) as the principal debtor under the Notes and the Trust Deed of certain other

	entities subject to the Trustee being satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders and certain other conditions set out in the Trust Deed being complied with.
Form and Denomination	The Notes will be issued in registered form and represented upon issue by a registered global certificate which will be registered in the name of a nominee for a Common Depositary for Clearstream Banking S.A. and Euroclear Bank SA/NV on the Issue Date. Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the registered global certificate. The Notes will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.
Listing	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the GEM of Euronext Dublin. The GEM is not a regulated market for the purposes of MiFID II.
Ratings	The Notes are expected to be assigned a rating of BBB+ by Fitch. 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 and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons. The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. See "*Subscription and Sale*" below.
ISIN	XS2027400063
Common Code	202740006
FISN	ROTHESAY LIFE P/EUR NT 20260712 SU
CFI	DBFXFR

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and completion, are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The issue of the £300,000,000 3.375 per cent. Subordinated Notes due 2026 (the "**Notes**") of Rothesay Life Plc (the "**Issuer**") was authorised by a resolution of the board of Directors of the Issuer passed on 3 July 2019. The Notes are constituted by a trust deed (the "**Trust Deed**") dated 12 July 2019 between the Issuer and Citicorp Trustee Company Limited (the person or persons for the time being the trustee or trustees under the Trust Deed, the "**Trustee**") as trustee for the Holders of the Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes. Copies of the Trust Deed and of the agency agreement (the "**Agency Agreement**") dated 12 July 2019 relating to the Notes between the Issuer, Citibank N.A., London Branch as the initial principal paying agent (the person for the time being the principal paying agent under the Agency Agreement, the "**Principal Paying Agent**"), Citigroup Global Markets Europe AG as the initial registrar (the person for the time being the registrar under the Agency Agreement, the "**Registrar**"), the initial transfer agents named therein (the person(s) for the time being the transfer agent(s) under the Agency Agreement, the "**Transfer Agent(s)**") and the Trustee are available for inspection during usual business hours at the principal office of the Principal Paying Agent (presently at Citigroup Centre, 6th Floor, 25 Canada Square, London E14 5LB, United Kingdom) and at the specified offices of the Registrar and each of the Transfer Agents. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1 Form and Denomination

The Notes are issued in registered form, in the denominations of £100,000 and integral multiples of £1,000 in excess thereof (each an "**Authorised Denomination**").

A certificate (each a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

2 Status

(a) Ranking

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of the winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, the rights and claims of the Noteholders (and the Trustee on their behalf) against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any Arrears of Interest, any other accrued and unpaid interest and any damages awarded for breach of any obligations in respect of such Note, provided, however, that such rights and claims shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank (i) at least *pari passu* with all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer 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 3 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith ("***Pari Passu* Securities**"), and (ii) in priority to the claims of holders of: (a) all obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer 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 (including, for so long as any of the same remain outstanding, the Issuer's £250,000,000 8.00 per cent. Subordinated Notes due 2025 (ISIN: XS1312953596), the Issuer's £300,000,000 Floating Rate Subordinated Notes due 2028 and the Issuer's £100,000,000 Floating Rate Perpetual Preferred Callable Securities) or Tier 1 Capital (including, for so long as any of the same remain outstanding, the Issuer's £350,000,000 Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes (ISIN: XS1865334020)) and all obligations which rank, or are expressed to rank, *pari passu* therewith (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules); and (b) all classes of share capital of the Issuer.

(b) **Solvency Condition**

Without prejudice to Condition 2*(a)*, all payments under or arising from the Notes and the Trust Deed (other than payments made to the Trustee for its own account under the Trust Deed) shall be conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Notes or the Trust Deed unless and until the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**"). Any payment which is not paid due to operation of the Solvency Condition will be deferred as further provided in Condition 5*(c)* or Condition 6*(a)* as the case may be.

For the purposes of this Condition 2*(b)*, the Issuer will be "**solvent**" if (i) it is able to pay its debts owed to Senior Creditors and *Pari Passu* Creditors as they fall due, and (ii) its Assets exceed its Liabilities.

A certificate as to the solvency of the Issuer signed by two Directors or, if there is a winding-up or administration of the Issuer, by two directors or authorised signatories of the liquidator or, as the case may be, the administrator of the Issuer shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

The Issuer shall notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 as soon as reasonably practicable after it has determined that any payment (in whole or in part) will be deferred due to the operation of the Solvency Condition (provided that, for the avoidance of doubt, any delay in giving such notice shall not result in such payment becoming due on the scheduled payment date).

(c) **Set-off, etc.**

Subject to applicable law, no Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes and each Noteholder shall, by virtue of being the Holder of any Note, be deemed, to the extent permitted by law, to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer is discharged by set-off, such Noteholder shall, unless such payment is prohibited by applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate, of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate, of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and, accordingly, any such discharge shall be deemed not to have taken place.

As used in this Condition 2, the expression "**obligations**" includes any direct or indirect obligations of the Issuer and whether by way of guarantee, indemnity, other contractual support arrangement or otherwise and regardless of name or designation.

(d) The Trustee

The provisions of Condition 2*(b)* apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Condition 2*(b)* or in Conditions 5, 6 or 10 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest, principal or other amounts by reason of Condition 2*(b)*, Condition 5*(c)* or Condition 6*(a)*. Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with any of the foregoing.

3 Register, Title and Transfers

(a) Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof), and "**Noteholder**" shall be construed accordingly.

(b) Title

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.

(c) Transfers

Subject to Conditions 3*(f)* and 3*(g)*, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) Registration and delivery of Note Certificates

Within five business days of the surrender of a Note Certificate in accordance with Condition 3*(c)*, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

(e) No charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) Closed periods

Noteholders may not require transfers to be registered (i) during the period of 15 days ending on the due date for any payment of principal in respect of the Notes or ending on any Record Date, (ii) after the Notes have been called for redemption, and (iii) during the period following delivery of a notice of a payment of Arrears of Interest in accordance with Condition 5*(c)* and Condition 16 and ending on the date referred to in such notice as having been fixed for such payment of Arrears of Interest.

(g) Regulations concerning transfers and registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests, in writing, a copy of such regulations.

4 Interest

(a) Interest Rate

Each Note bears interest on its outstanding principal amount from (and including) the Issue Date at 3.375 per cent. per annum in accordance with the provisions of this Condition 4.

Subject to Condition 2*(b)* and Condition 5, interest shall be payable on the Notes annually in arrear on each Interest Payment Date.

(b) Interest Accrual

Each Note will cease to bear interest from (and including) its due date for redemption pursuant to Condition 6, or the date of substitution thereof pursuant to Condition 6*(c)*(y) or 6*(d)*(ii), as the case may be, unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue on the principal amount of such Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

(c) Calculation of Interest

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a complete year, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the year in which the relevant period falls (including the first such day but excluding the last). The amount of interest which (subject to Condition 2*(b)* and Condition 5) shall be payable in respect of each Calculation Amount on each Interest Payment Date will be £33.75.

Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall, subject to Condition 2*(b)* and Condition 5, be equal to the product of the Calculation Amount, 3.375 per cent. and the day-count fraction as described above in this Condition 4*(c)* for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards). Where the denomination of a Note is more than the Calculation Amount, the amount of interest payable in respect of such Note is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of such Note.

5 Deferral of Payments

(a) Mandatory Deferral of Interest

Payment of interest on the Notes will be mandatorily deferred in full on each Mandatory Interest Deferral Date. The Issuer shall notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 no later than five Business Days prior to an Interest Payment Date (or as soon as reasonably practicable if a Regulatory Deficiency Interest Deferral Event occurs less than five Business Days prior to an Interest Payment Date) if a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or if a Regulatory Deficiency Interest Deferral Event would occur on the Interest Payment Date if payment of interest was made (provided that, for the avoidance of doubt, any delay in giving such notice shall not result in such interest becoming due and payable on the relevant Mandatory Interest Deferral Date).

A certificate signed by two Directors confirming, as more fully discussed in the Trust Deed, 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 Regulatory Deficiency Interest Deferral Event occurring, may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person.

(b) No default

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment of interest in accordance with this Condition 5 or in accordance with Condition 2*(b)* will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any other action under the Notes or the Trust Deed.

(c) Arrears of Interest

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of (i) the obligation on the Issuer to defer such payment of interest pursuant to Condition 5*(a)*, or (ii) the operation of the Solvency Condition contained in Condition 2*(b)*, together with any other interest in respect of the Notes not paid on an earlier Interest Payment Date shall, so long as the same remains unpaid, constitute "**Arrears of Interest**".

Arrears of Interest shall not bear interest.

Any Arrears of Interest may (subject to Condition 2*(b)* and (to the extent then required by the UK Regulator or the Relevant Rules) to any notifications to, or consent or the provision of non-objection from, the UK Regulator) be paid in whole but not in part at any time at the election of the Issuer (provided that at such time a Regulatory Deficiency Interest Deferral Event is not subsisting and would not occur if payment of such Arrears of Interest was made) upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee, the Registrar and the Principal Paying Agent in writing and to the Noteholders in accordance with Condition 16, and in any event all Arrears of Interest will become due and payable (subject, in the case of (i) and (iii) below, to Condition 2*(b)* and (to the extent then required by the UK Regulator or the Relevant Rules) any notifications to, or consent or the provision of non-objection from, the UK Regulator) upon the earliest of the following dates:

(i) the next Interest Payment Date which is not a Mandatory Interest Deferral Date and on which a scheduled payment of interest in respect of the Notes (or any part thereof) is made or is required to be made pursuant to these Conditions (other than a voluntary payment of Arrears of Interest); or

(ii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend; or

(iii) the date of any redemption or purchase of Notes by or on behalf of the Issuer or any of its Subsidiaries pursuant to Condition 6 (subject to the deferral of such redemption pursuant to Condition 2*(b)* or Condition 6*(a)*).

The Issuer shall, as soon as reasonably practicable, notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 of any payment of Arrears of Interest made in accordance with (i) or (iii) above.

6 Redemption, Substitution, Variation and Purchase

(a) Redemption

(i) Subject to Condition 2*(b)*, Condition 6*(a)*(ii) and to compliance by the Issuer with regulatory rules, including (to the extent then required by the UK Regulator or the Relevant Rules) on notification to, or consent or the provision of non-objection from, the UK Regulator, and provided that such redemption is permitted under the Relevant Rules applicable from time to time to the Issuer (on the basis that the Notes are intended to qualify as Tier 3 Capital under the Relevant Rules), unless previously redeemed or purchased and cancelled as provided below, each Note shall be redeemed on 12 July 2026 (the "**Maturity Date**") at its principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the Maturity Date.

(ii) No Notes shall be redeemed on the Maturity Date pursuant to Condition 6*(a)*(i) or prior to the Maturity Date pursuant to Condition 6*(c)* or 6*(d)* if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made on, if Condition 6*(a)*(i) applies, the Maturity Date or, if Condition 6*(c)* or 6*(d)* applies, the applicable date specified for redemption in accordance with such Conditions.

(iii) If the Notes are not to be redeemed on the Maturity Date pursuant to Condition 6*(a)*(i) or on any scheduled redemption date pursuant to Condition 6*(c)* or 6*(d)* 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 redeemed on such date;

(B) the Solvency Condition is not or would not be satisfied on such date and immediately after the redemption; or

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

the Issuer shall notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 no later than five Business Days prior to the Maturity Date or the date specified for redemption in accordance with Condition 6*(c)* or 6*(d)*, as applicable (or as soon as reasonably practicable if the relevant circumstance requiring redemption to be deferred arises, or is determined, less than five Business Days prior to the relevant redemption date). For the avoidance of doubt, any delay in giving such notice shall not result in the Notes becoming due and payable on the Maturity Date or the date specified for redemption in accordance with Condition 6*(c)* or 6*(d)*, as applicable.

(iv) If redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6*(c)* or 6*(d)* as a result of Condition 6*(a)*(ii) or the UK Regulator does not consent to the redemption (to the extent that consent is then required by the UK Regulator or the Relevant Rules) or the UK Regulator objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date, subject (in the case of Condition 6*(a)*(iv)(A) and Condition 6*(a)*(iv)(B) only) to Condition 2*(b)* and (to the extent then required by the UK Regulator or the Relevant Rules) to any notifications to, or consent or the provision of non-objection from, the UK Regulator, such Notes shall be redeemed at their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption, upon the earliest of:

(A) (in the case of a failure to redeem due to the operation of Condition 6*(a)*(ii) only) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless, on such tenth Business Day, a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a Regulatory Deficiency Redemption Deferral Event occurring, in which case, the provisions of Condition 6*(a)*(ii), Condition 6*(a)*(iii) and this Condition 6*(a)*(iv) shall apply *mutatis mutandis* to determine the due date for redemption); or

(B) the date falling 10 Business Days after the UK Regulator has agreed to the repayment or redemption of the Notes; or

(C) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend.

(v) If Condition 6*(a)*(ii) does not apply, but redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6*(c)* or 6*(d)* as a result of the Solvency Condition not being satisfied at such time and immediately after such payment, subject (to the extent then required by the UK Regulator or the Relevant Rules) to any notifications to, or consent or the provision of non-objection from, the

UK Regulator, such Notes shall be redeemed at their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption, on the tenth Business Day immediately following the day that (a) the Issuer is solvent for the purposes of Condition 2*(b)*, and (b) redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 2*(b)*, provided that, if, on such tenth Business Day specified for redemption, a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed, or if the Solvency Condition would not be satisfied on such date and immediately after the redemption, then the Notes shall not be redeemed on such date and Condition 6*(a)*(ii), Condition 6*(a)*(iii) and Condition 6*(a)*(iv) (if such further deferral is due to a Regulatory Deficiency Redemption Deferral Event) or Condition 2*(b)* and this Condition 6*(a)*(v) (if such further deferral is due to the operation of the Solvency Condition) shall apply *mutatis mutandis* to determine the date of the redemption of the Notes.

(vi) A certificate signed by two Directors 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 any of the circumstances described in Condition 6*(a)*(iii)(B) or 6*(a)*(iii)(C) apply, may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person.

(vii) Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 2*(b)* or this Condition 6 will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any other action under the Notes or the Trust Deed.

(viii) 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 16 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.

(b) **Conditions to Redemption, Substitution, Variation or Purchase**

Any redemption, substitution, variation or purchase of the Notes is subject to:

(i) the Issuer having complied with all relevant legal or regulatory requirements, including (to the extent then required by the UK Regulator or the Relevant Rules) rules on notification to, or consent or the provision of non-objection from, the UK Regulator;

(ii) being in continued compliance with the Regulatory Capital Requirements applicable to it at the relevant time;

(iii) in the case of a redemption or purchase that is within five years of the Issue Date (to the extent then required by the UK Regulator or the Relevant Rules) either:

(A) such redemption or purchase being funded out of the proceeds of a new issuance of, or the Notes being exchanged into, own funds of the same or higher quality than the Notes; or

(B) in the case of any redemption pursuant to Condition 6*(c)* or 6*(d)* and if so permitted by the UK Regulator or the Relevant Rules at the relevant time, the Issuer's Solvency Capital Requirement after such redemption being exceeded by an appropriate margin, taking into account the solvency position of the Issuer, including its medium-term capital management plan;

(iv) in the case of any redemption prior to the fifth anniversary of the Issue Date, if and to the extent then required under prevailing Relevant Rules:

(A) in the case of redemption upon a Tax Event, the Issuer has demonstrated to the satisfaction of the UK Regulator that the applicable change in tax treatment is material and was not reasonably foreseeable as at the Issue Date; or

(B) in the case of redemption upon the occurrence of a Capital Disqualification Event, the UK Regulator considers that the relevant change in the regulatory classification of the Notes is sufficiently certain and the Issuer has demonstrated to the satisfaction of the UK Regulator that such change was not reasonably foreseeable as at the Issue Date; and

(v) being otherwise permitted under the Relevant Rules.

A certificate signed by two Directors confirming such compliance may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

(c) **Redemption, Substitution or Variation at the Option of the Issuer Due to Taxation**

If immediately prior to the giving of the notice referred to below:

(i) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the UK or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the UK is a party, or any change in the application or official interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions (in respect of securities similar to the Notes and which are capable of constituting Tier 3 Capital), which change or amendment becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by UK Act of Parliament or by statutory instrument, on or after the Issue Date of the Notes (each a "**Tax Law Change**"), in making any payments on the Notes, the Issuer has paid or will, or would on the next payment date be required to pay, Additional Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or

(ii) as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date:

(A) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the UK, or such entitlement is materially reduced; or

(B) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable UK tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist),

and, in each such case, the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or

(iii) as a result of a Tax Law Change, the Issuer suffers or would suffer any other material adverse tax consequence in connection with the Notes in the UK and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it,

then the Issuer may:

(x) subject to Condition 2*(b)*, Condition 6*(a)*(ii) and Condition 6*(b)* and having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption in accordance with these Conditions; provided that, in the case of a Tax Law Change which is a proposed amendment or a proposed change only, no such notice of redemption shall be given earlier than 90 days prior to: (i) the earliest date on which the Issuer would be required to pay such Additional Amounts (in the case of a redemption pursuant to Condition 6*(c)*(i)); (ii) the first Interest Payment Date on which the eventuality set out in Condition 6*(c)*(ii)(A) or Condition 6*(c)*(ii)(B), as applicable, would materialise (in the case of a redemption pursuant to Condition 6*(c)*(ii)), as applicable; or (iii) the earliest date on which the Issuer would suffer any other material adverse tax consequence as set out in Condition 6(*c*)(iii) (in the case of a redemption pursuant to Condition 6(*c*)(iii)); or

(y) subject to Condition 6*(b)* (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 Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Tier 3 Securities, and the Trustee shall (subject to the following provisions of this paragraph (y) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of "Qualifying Tier 3 Securities") agree to such substitution or variation. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Tier 3 Securities, provided that the Trustee shall not be obliged to participate or assist in or agree to any such substitution or variation of the Notes for or into Qualifying Tier 3 Securities if the terms of the securities into which the Notes are to be substituted or are to be varied or such substitution or variation impose, in the Trustee's opinion, more onerous obligations or duties upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so participate or assist or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6*(c)*, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors stating that the relevant requirement or circumstance referred to in Condition 6*(c)*(i) or Condition 6*(c)*(ii) applies, and (ii) an opinion from a nationally recognised law firm or other tax adviser in the UK experienced in such matters to the effect that the relevant requirement or circumstance referred to in Condition 6*(c)*(i) or Condition 6*(c)*(ii) applies (provided that such opinion need not comment on whether the Issuer could avoid the relevant requirement or circumstance by taking measures reasonably available to it). The Trustee shall be entitled to treat such certificate and opinion (and, if so treated and accepted by the Trustee, shall be treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and shall not be liable to any person by reason thereof. Upon expiry of such notice, the Issuer shall (subject to Condition 6*(b)* and, in the case of a redemption, to Condition 2*(b)*, Condition 6*(a)*(ii), Condition 6*(a)*(iii) and Condition 6*(a)*(iv)) either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6*(c)*, the Issuer 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.

(d) **Redemption, Substitution or Variation at the Option of the Issuer due to Capital Disqualification Event**

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing or, 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), a Capital Disqualification Event will occur within the forthcoming period of six months, then:

(i) the Issuer may, subject to Condition 2*(b)*, Condition 6*(a)*(ii) and Condition 6*(b)* and having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable and may be given at any time up to and including the anniversary of the occurrence of such Capital Disqualification Event), redeem in accordance with these Conditions all, but not some only, of the Notes at any time at their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption in accordance with these Conditions; or

(ii) the Issuer may, subject to Condition 6*(b)* (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 Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Tier 3 Securities and the Trustee shall (subject to the following provisions of this Condition 6*(d)*(ii) and subject to the receipt by it of the certificate of the Directors of the Issuer referred to below and in the definition of "Qualifying Tier 3 Securities") agree to such substitution or variation. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Tier 3 Securities, provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation or agree to the terms of the securities into which the Notes are to be substituted or are to be varied if such substitution or variation imposes, in the Trustee's opinion, more onerous obligations or duties upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so participate or assist or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6*(d)*, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing or, as the case may be, will occur within the forthcoming period of six months as at the date of the certificate. The Trustee shall be entitled to treat such certificate (and if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person. Upon expiry of such notice, the Issuer shall (subject to Condition 6*(b)* and, in the case of a redemption, to Condition 2*(b)*, Condition 6*(a)*(ii), Condition 6*(a)*(iii) and Condition 6*(a)*(iv)) either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6*(d)*, the Issuer 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.

(e) **Purchases**

Subject to Condition 6*(b)*, the Issuer and any of its Subsidiaries may, at any time, purchase Notes in the open market or otherwise and at any price.

(f) **Cancellation**

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may (at the option of the Issuer or the relevant Subsidiary) be held, reissued, resold or surrendered for cancellation. All Notes surrendered for cancellation, together with all Notes redeemed by the Issuer, shall be cancelled forthwith. Any Notes so redeemed or surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(g) **Trustee Not Obliged to Monitor**

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Noteholders for any loss arising from any failure by the Trustee to do so. Unless and until the Trustee has actual written notice of the occurrence of any event or circumstance within this Condition 6, it shall be entitled without liability to assume that no such event or circumstance exists.

7 Payments

(a) **Method of Payment**

(i) Payments of principal shall be made in pounds sterling by transfer to a sterling account maintained by or on behalf of the payee with a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of the Principal Paying Agent.

(ii) Payments of interest shall be made in pounds sterling by transfer to a sterling account maintained by or on behalf of the payee with a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of the Principal Paying Agent.

(b) **Payments subject to Fiscal Laws**

Save as provided in Condition 8, payments will be subject in all cases to any fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) Record Date

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's specified office on the fifteenth day before the due date of such payment (the "**Record Date**").

(d) Appointment of Agents

The initial Principal Paying Agent, the Registrar and the Transfer Agents and their initial specified offices are listed below. They act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar and the Transfer Agents and to appoint replacement agents or additional or other Paying Agents and/or Transfer Agents, provided that it will:

(i) at all times maintain a Principal Paying Agent, a Registrar and a Transfer Agent; and

(ii) at all times maintain such other agents as may be required by any stock exchange on which the Notes may be listed.

Notice of any such termination or appointment and of any change in the specified offices of the Principal Paying Agent, Registrar or Transfer Agents will be given to the Holders in accordance with Condition 16.

If any of the Registrar, Transfer Agents or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place.

(e) Non-Business Days

If any date for payment in respect of any Note is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

8 Taxation

All payments of principal and interest (including, without limitation, Arrears of Interest) by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the UK or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer will pay additional amounts in relation to interest (including, without limitation, Arrears of Interest) ("**Additional Amounts**") (but not in respect of any payments of principal) as will result in receipt by the Noteholders of such amounts equal to the amounts of interest (including, without limitation, Arrears of Interest) as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts shall be payable in respect of any Note:

(a) the Holder of which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of the Holder having some connection with the UK other than the mere holding of the Note; or

- ***(b)*** presented for payment by or on behalf of a Noteholder who could lawfully have avoided (but has not so avoided) such deduction or withholding by complying or procuring that any person who is associated or connected with the Noteholder for the purposes of any tax makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note is presented for payment;
- ***(c)*** presented for payment more than 30 days after the Relevant Date except to the extent that the Noteholder would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day; or
- ***(d)*** where such withholding or deduction arises out of any combination of paragraph (a) to (c) above.

As used in these Conditions, "**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 in accordance with Condition 16 that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to interest (including, without limitation, Arrears of Interest) shall be deemed to include any Additional Amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

Notwithstanding any other provision of these Conditions, in no event will the Issuer or any other person be required to pay any additional amounts in respect of the Notes and coupons for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

9 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest, including, without limitation, Arrears of Interest) from the appropriate Relevant Date in respect of them.

10 Events of Default and Enforcement

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

Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings is limited to circumstances where payment has become due and is not duly paid. Pursuant to Condition 2*(b)*, no principal, interest or any other amount will be due on a scheduled payment date if the Solvency Condition is not or would not be satisfied at the time of and immediately after any such payment. In addition, in the case of any payment of interest in respect of the Notes which is deferred pursuant to Condition 5*(a)*, such payment will not be due on the scheduled payment date and, in the case of payment of principal, such payment will be deferred and will not be due on the scheduled payment date if Condition 6*(a)*(ii) applies or the UK Regulator does not consent to the redemption (to the extent that consent is then required by the UK Regulator or the Relevant Rules), the UK Regulator objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date.

If:

(i) a default is made for a period of 14 days or more in the payment of any interest (including, without limitation, Arrears of Interest and any other amount due in respect of the Notes) or principal due in respect of the Notes or any of them; or

(ii) a winding-up of the Issuer (other than an Approved Winding-up) occurs or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend,

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

(A) in the case of Condition 10*(a)*(i), institute proceedings for the winding-up of the Issuer; and

(B) in the case of each of Condition 10*(a)*(i) and Condition 10*(a)*(ii), prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer (such claim being for such amount, and being subordinated in the manner, as is provided in Condition 2*(a)*),

but (in either case) 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.

No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to this Condition 10*(a)*, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or the provision of non-objection from, the UK Regulator, which the Issuer shall confirm in writing to the Trustee.

(b) **Enforcement**

Without prejudice to Condition 10*(a)*, the Trustee may, at its discretion and without notice, institute such proceedings or take such steps or actions against the Issuer as it may think fit to enforce any obligation, term, condition or provision binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest (including, without limitation, Arrears of Interest) in respect of the Notes and any damages awarded for breach of any obligations, but excluding any obligation of the Issuer to make payments to the Trustee acting on its own account under the Trust Deed in respect of its costs, expenses, liabilities or remuneration) but in no event shall the Issuer, 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 10*(b)* shall, subject to Condition 10*(a)*, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including, without limitation, payment of any principal or interest (including, without limitation, Arrears of Interest) in respect of the Notes and any damages awarded for any breach of any obligations under the Notes or the Trust Deed).

Nothing in this Condition 10 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) Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 10*(a)* or Condition 10*(b)* to enforce the obligations of the Issuer under the Trust Deed or the Notes or any other action under or pursuant to the Trust Deed unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) Right of Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer or prove or claim in the liquidation or winding-up of the Issuer unless the Trustee, having become so bound to proceed, is unable to do so or fails to do so within 60 days or, being able to prove or claim in such winding-up or liquidation, fails to do so within 60 days and, in each case, such failure or inability (as applicable) shall be continuing, in which case, the Noteholder shall, with respect to the Notes held by it, have only such rights against the Issuer as those which the Trustee is entitled to exercise in respect of such Notes as set out in this Condition 10.

(e) Extent of Noteholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, 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 of any of its other obligations under or in respect of the Notes or under the Trust Deed.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons holding Notes or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia* (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Arrears of Interest on the Notes, (ii) to reduce or cancel the principal amount of the Notes, (iii) to reduce the rate of interest or Arrears of Interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any interest amount in respect of the Notes, (iv) to vary the circumstances in which interest payments may or shall be deferred (unless such variation reduces the circumstances in which interest payments may or shall be deferred), (v) to vary the currency or currencies of payment or denomination of the Notes, (vi) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (viii) to modify Condition 2 (and the provisions of the Trust Deed relating to subordination), in which case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

The Trust Deed provides that (i) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding (with proof of holdings as set out in the Trust Deed) or (ii) consent to a resolution given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of holder(s) of not less than 75 per cent. in principal amount of the Notes for the time being outstanding who (in either case) would have been entitled to vote upon such resolution if it had been proposed at a meeting at which they were present, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. Any resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

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 made in the circumstances described in Condition 6*(c)* or Condition 6*(d)* in connection with the substitution or variation of the Notes so that they remain or become Qualifying Tier 3 Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 6*(c)* or Condition 6*(d)*, as the case may be. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) **Modification of the Notes, the Trust Deed or the Agency Agreement**

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. The Trustee may, without the consent of Noteholders, determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that, in the opinion of the Trustee, the interests of Noteholders are not materially prejudiced thereby.

Any such modification, authorisation or waiver shall be binding on the Noteholders and, unless the Trustee agrees otherwise, such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(c) **Notice to the UK Regulator**

No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless (to the extent then required by the UK Regulator or the Relevant Rules) the Issuer shall have given at least one month's prior written notice to, and received consent or no objection from, the UK Regulator (or such other period of notice as the UK Regulator may from time to time require or accept).

(d) **Substitution**

The Trustee may agree with the Issuer, without the consent of the Noteholders, to the substitution, on a subordinated basis equivalent to that referred to in Condition 2, of any person or persons incorporated in any country in the world (the "**Substitute Obligor**") in place of the Issuer (or any previous Substitute Obligor under this Condition 11*(d)*) as a new principal debtor under the Trust Deed and the Notes, provided that:

(i) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed and the Notes, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the Notes, as the principal debtor in place of the Issuer (or of any previous Substitute Obligor, as the case may be);

(ii) (unless the successor in business of the Issuer is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed and the Notes are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee, and provided further that the obligations of such guarantor shall be subject to a solvency condition equivalent to that set out in Condition 2*(b)*, such guarantor shall not exercise rights of subrogation or contribution against the Substitute Obligor without the consent of the Trustee and the only event of default applying to such guarantor shall be an event of default equivalent to that set out in Condition 10*(a)*;

(iii) two directors of the Substitute Obligor or other officers acceptable to the Trustee certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected (and the Trustee may rely absolutely on such certification without further enquiry and without liability to any person and shall not be bound to have regard to the financial position, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer);

(iv) (without prejudice to the rights of reliance of the Trustee under Condition 11*(d)*(iii)) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;

(v) two directors of the Substitute Obligor certify to the Trustee that such substitution will not give rise to a Tax Event or a Capital Disqualification Event;

(vi) (without prejudice to the generality of Condition 11*(d)*(i)) 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, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders;

(vii) if the Substitute 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 or any such authority to the taxing jurisdiction of which the Issuer is subject generally (the "**Issuer's Territory**"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for the references in that Condition and in Condition 6*(c)* to the Issuer's Territory of references to the Substituted Territory, whereupon the Trust Deed and the Notes will be read accordingly;

(viii) if the Notes are rated (where such rating was assigned at the request of the Issuer) by one or more credit rating agencies of international standing immediately prior to such substitution, the Notes shall continue to be rated by each such rating agency immediately following such substitution, and each credit rating agency shall have confirmed that the credit ratings assigned to the Notes by each such credit rating agency immediately following such substitution are expected to be no less than those assigned to the Notes immediately prior thereto; and

(ix) the Issuer and the Substitute Obligor comply with such other requirements as are reasonable in the interests of the Noteholders, as the Trustee may direct.

Any substitution pursuant to this Condition 11 shall be subject to supervisory approval from the UK Regulator (if any) as may then be required by the UK Regulator or the Relevant Rules.

Any such substitution shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

12 Entitlement of the Trustee

In connection with any exercise of its functions (including, but not limited to, those referred to in Condition 11), the Trustee shall have regard to the interests of the Noteholders as a class and the Trustee shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise as aforesaid, no Noteholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Noteholders except to the extent already provided in Condition 8 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Nothing in the Trust Deed or these Conditions (including, without limitation, the provisions of Condition 2 or Condition 10*(a)*) shall affect or prejudice the payment of the costs, fees, charges, expenses, liabilities or remuneration of the Trustee for its own account under the Trust Deed or the rights and remedies of the Trustee in respect thereof.

13 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 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.

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 any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's 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.

The Trust Deed provides that the Trustee may rely and/or act upon the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant, surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, 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, any Substitute Obligor or any one or more Directors or any Substitute 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/or acting. Any such advice, opinion, information or certificate may be sent or obtained by letter, 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.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion, 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, 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.

14 Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar 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 may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may, from time to time, without the consent of the Noteholders, create and issue further securities either (i) having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the Notes then outstanding, or (ii) upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the Notes shall be constituted by the Trust Deed or a deed supplemental to it.

16 Notices

All notices required to be given to the Noteholders pursuant to the Conditions will be valid if mailed to them at their respective addresses in the Register maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law

The Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England.

19 Definitions

As used herein:

"**Additional Amounts**" has the meaning given to it in Condition 8;

"**Agents**" means the Principal Paying Agent, the Paying Agents, the Registrar and the Transfer Agents;

"**Approved Winding-up**" means a solvent winding-up of the Issuer solely for the purposes of (i) either a reconstruction or amalgamation of the Issuer, the terms of which reconstruction or amalgamation have previously been approved in writing by the Trustee or by an Extraordinary Resolution, or (ii) a substitution of the Issuer effected in accordance with Condition 11(d) and clause 14 of the Trust Deed, which in the case of either (i) or (ii), do not provide that the Notes shall thereby become payable;

"**Arrears of Interest**" has the meaning given to it in Condition 5*(c)*;

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

"**Authorised Denomination**" has the meaning given to it in Condition 1;

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;

"**Calculation Amount**" means £1,000 in principal amount of the Notes;

A "**Capital Disqualification Event**" is deemed to have occurred if, as a result of any change to (or change to the interpretation by any court or authority entitled to do so of) the Relevant Rules, the whole or any part of the principal amount of the Notes is excluded from counting as Tier 3 Capital for the purposes of the Issuer or the Group as a whole, 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 (other than a limitation derived from any transitional or grandfathering provisions under the Relevant Rules);

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

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

"**Euronext Dublin**" means the Irish Stock Exchange plc, trading as Euronext Dublin;

"**European Economic Area**" or "**EEA**" means the countries comprising the European Union together with Norway, Liechtenstein and Iceland;

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

"**Group**" means the Group Holding Company and its Subsidiaries at such time;

"**Group Holding Company**" means Rothesay Holdco UK Limited or, if the Issuer has an ultimate insurance holding company that is subject to consolidated supervision by a United Kingdom or other EEA regulatory authority for the purposes of the Solvency II Directive, such ultimate insurance holding company (such company being, as at the Issue Date, Rothesay Holdco UK Limited);

"**Global Exchange Market**" means Euronext Dublin's Global Exchange Market;

"**Group Supervisor**" means the regulatory authority exercising group supervision over the Group in accordance with the Solvency II Directive;

"**Holder**" has the meaning given to it in Condition 3*(a)*;

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

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

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

in each case where the Issuer has determined, acting reasonably, that all Policyholder Claims of the policyholders or beneficiaries under contracts of insurance of that insurance undertaking may or will not be met in full;

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

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

"**Interest Payment Date**" means 12 July in each year, starting on (and including) 12 July 2020;

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

"**Issue Date**" means 12 July 2019, being the date of the initial issue of the Notes;

"**Issuer's Territory**" has the meaning given to it in Condition 11*(d)*(vii);

"**Level 2 Regulations**" means the Commission Delegated Regulation (EU) No. 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), as amended or supplemented from time to time;

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

"**Mandatory 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 (including, if applicable, any Arrears of Interest) was made on such Interest Payment Date;

"**Maturity Date**" has the meaning given to it in Condition 6*(a)*(i);

"**Minimum Capital Requirement**" means the Minimum Capital Requirement, the minimum group Solvency Capital Requirement or other minimum capital requirements (as applicable) referred to in the Relevant Rules;

"**Note Certificate**" has the meaning given to it in Condition 1;

"**Noteholder**" has the meaning given to it in Condition 3*(a)*;

"**Official List**" means the official list of Euronext Dublin;

"***Pari Passu* Creditors**" means creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders, including (without limitation) holders of *Pari Passu* Securities;

"***Pari Passu* Securities**" has the meaning given to it in Condition 2*(a)*;

"**Policyholder Claims**" means claims of policyholders or beneficiaries under contracts of insurance in a winding-up, liquidation or administration of an insurance undertaking within the Group to the extent that those claims relate to any debt to which the insurance undertaking is, or may become, liable to a policyholder or such a beneficiary pursuant to a contract of insurance, including all amounts to which policyholders or such beneficiaries are entitled under applicable legislation or rules relating to the winding-up or administration of insurance companies to reflect any right to receive, or expectation of receiving, benefits which such policyholders or such beneficiaries may have;

"**pounds**", "**sterling**", "**£**" or "**p**" means the lawful currency of the UK;

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

"**Qualifying Tier 3 Securities**" means securities issued directly by the Issuer or indirectly and guaranteed by the Issuer (such guarantee to rank on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed) that:

(i) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which, in either case, is independent of the Issuer), and provided that a certification to such effect (including as to such consultation and in respect of the matters specified in (1) to (7) of paragraph (ii) below) of two Directors shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities);

(ii) (subject to paragraph (i) above) (1) contain terms which comply with the then current requirements of the UK Regulator in relation to Tier 3 Capital, (2) bear the same Interest Rate from time to time, and preserve the Interest Payment Dates; (3) rank senior to, or *pari passu* with, the ranking of the Notes; (4) provide for the same Maturity Date and preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption, but provided that such Qualifying Tier 3 Securities may not be redeemed by the Issuer prior to the Maturity Date (save for redemption, substitution or variation on terms analogous with the terms of Condition 6*(c)* or 6*(d)* and subject to the same conditions as those set out in Condition 6*(b)*); (5) do not contain any term which provides for, requires or entitles the Issuer to effect any principal loss absorption through the write-down of the nominal amount of Qualifying Tier 3 Securities or conversion of such Qualifying Tier 3 Securities into equity; (6) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts which have not been paid; and (7) contain terms providing for deferral of payments of interest and/or principal only if such terms are not materially less favourable to an investor than the deferral provisions contained in the terms of the Notes; and

(iii) are listed on the Official List and admitted to trading on the Global Exchange Market or are listed and/or admitted to trading on such other regularly operating, internationally recognised stock exchange in the United Kingdom or the EEA as selected by the Issuer and approved by the Trustee, provided that such stock exchange is a Recognised Stock Exchange,

and provided that a certification to the effect of paragraphs (i) and (ii) above (including as to consultation with an independent investment bank or financial adviser of international standing), signed by two Directors, shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities;

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

"**Record Date**" has the meaning given to it in Condition 7*(c)*;

"**Register**" has the meaning given to it in Condition 3*(a)*;

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

"**Regulatory Capital Requirements**" means any applicable capital resources requirement or applicable overall financial adequacy rule (or equivalent) required by the UK Regulator pursuant to the Relevant Rules, as any such requirement or rule is in force from time to time;

"**Regulatory Deficiency Interest Deferral Event**" means any event (including, without limitation, any event which causes any Minimum Capital Requirement (including any minimum consolidated group Solvency Capital Requirement) applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under the Relevant Rules means that the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 3 Capital under the Relevant Rules);

"**Regulatory Deficiency Redemption Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing or any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and 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 means that the Issuer must defer or suspend repayment or redemption of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 3 Capital under the Relevant Rules);

"**Relevant Date**" has the meaning given to it in Condition 8;

"**Relevant Rules**" means, at any time, any legislation, rules or regulations (whether having the force of law or otherwise) in the jurisdiction of the UK Regulator and applicable to the Issuer, the Group Holding Company or the 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 UK Regulator and any amendment, supplement or replacement thereof) from time to time relating to the characteristics, features or criteria of own funds or capital resources;

"**Senior Creditors**" means (i) creditors of the Issuer who are unsubordinated creditors of the Issuer, including all policyholders of the Issuer (for the avoidance of doubt, the claims of policyholders shall include all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have), if any, and (ii) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims are in respect of instruments or obligations which constitute (or relate to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer 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 any such capital constitute, (a) Tier 1 Capital, (b) Tier 2 Capital, or (c) Tier 3 Capital (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules), or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders);

"**Solvency II**" means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of a regulation (including, without limitation, the Level 2 Regulations), a directive, 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 of 25 November 2009 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 capital requirement (other than the Minimum Capital Requirement) howsoever described in, the Relevant Rules;

"**Solvency Condition**" has the meaning given to it in Condition 2*(b)*;

"**Subsidiary**" has the meaning given to it in section 1159 of the Companies Act 2006 (as amended from time to time);

"**Substitute Obligor**" has the meaning given to it in Condition 11*(d)*;

"**Substituted Territory**" has the meaning given to it in Condition 11*(d)*(vii);

"**successor in business**" means, with respect to the Issuer, any body corporate which, as the result of any amalgamation, merger, reconstruction, acquisition or transfer:

(i) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Issuer or a successor in business of the Issuer prior thereto; or

(ii) carries on, as successor of the Issuer or a successor in business of the Issuer, the whole or substantially the whole of the business carried on by the Issuer or a successor in business of the Issuer prior thereto;

"**Tax Event**" means an event of the type described in Condition 6*(c)*(i) or 6*(c)*(ii);

"**Tax Law Change**" has the meaning given to it in Condition 6*(c)*(i);

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

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

"**Tier 3 Capital**" has the meaning given to it for the purposes of the Relevant Rules;

"**Transfer Agents**" has the meaning given to it in the preamble to the Conditions;

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

"**UK Regulator**" means the Bank of England acting as the United Kingdom Prudential Regulation Authority through its Prudential Regulation Committee or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer and/or the Group; and

"**United Kingdom**" or "**UK**" means the United Kingdom of Great Britain and Northern Ireland.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed and in the Global Certificate which will apply to, and in some cases modify the effect of the Conditions while the Notes are represented by the Global Certificate.

1 Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the "**Registered Holder**") for a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and may be delivered on or prior to the original issue date of the Notes.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

2 Relationship of Accountholders with Clearing Systems

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

3 Cancellation

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

4 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 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 this 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.

5 Meetings

The registered holder of the Global Certificate shall be treated as having one vote in respect of each £1.00 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.

6 Notices

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

7 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest, including, without limitation, Arrears of Interest) from the appropriate Relevant Date in respect of them.

8 Exchange

Owners of beneficial interests in the Notes in respect of which the Global Certificate is issued will be entitled to have title to the Notes registered in their names and to receive individual Certificates if Euroclear, Clearstream, Luxembourg or any Alternative Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the Issuer will cause sufficient Certificates to be executed and delivered to the Registrar and the Transfer Agent for completion, authentication and despatch to the relevant Noteholders within 14 days following a request therefor by the registered holder of the Global Certificate. A person with an interest in the Notes represented by the Global Certificate must provide the Registrar and the Transfer Agent with (A) a written order containing instructions and other such information as the Issuer, the Transfer Agent 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.

9 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).

10 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.

11 Enforcement

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

12 Euroclear and Clearstream, Luxembourg

References in the Global Certificate and this summary to Euroclear and Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved for the purposes of the Notes by the Trustee and the Registrar.

13 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 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 nominal amount of the Notes outstanding who (in either case) would have been entitled to vote upon such resolution if it had been proposed at a meeting at which they were present (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 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 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

(a) 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 and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and has taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of the Notes are expected to be used to fund general commercial and corporate activities of the Group.

DESCRIPTION OF THE ISSUER AND THE GROUP

1 Description of the Issuer and the Group

1.1 Overview of the Group

The Group was established in 2007 as a wholly-owned subsidiary of The Goldman Sachs Group, Inc. ("**Goldman Sachs**") and originally operated as an insurance company specialising in the provision of annuities. It has since become a leading provider of regulated insurance solutions in the UK pensions risk transfer market. The Group's principal activity is providing wholesale insurance annuity products to UK defined benefit pension schemes and their members, which involves the Group conducting "buy-in" and "buy-out" transactions (as set out in section 3.4 (*Key services and products*) with the trustees of defined benefit pension plans. The Group also acquires bulk annuities through the reinsurance of the portfolios of other insurance companies and/or acquisition of in-force annuity portfolios from other insurance companies, as well as through strategic acquisitions of other insurance companies specialising in annuities. A detailed explanation of the Group's business is provided in "*Business of the Group – Key services and products*".

The Group's strategy is to increase assets under management through the acquisition of additional annuity liabilities by writing bulk annuity contracts, reinsurance, and the strategic acquisition of other insurance companies expanding its annuities, primarily in the UK.

The Group now has three institutional shareholders: BTO Rothesay Holdings LLC ("**Blackstone**"), Cambourne Life Investment Pte Ltd ("**GIC**") and MM Rothesay Holdco US LLC (MassMutual) ("**MassMutual**"), which are supportive of the Group's growth plans and have access to substantial capital resources to back those plans.

The ultimate holding company of the Group and its subsidiaries is RHUK. RHUK was incorporated in England and Wales on 29 August 2013 with registered number 08668809. The principal operating company in the Group is the Issuer. The Issuer was incorporated on 26 February 2007 with registered number 06127279. The Issuer was incorporated and registered as a private limited company in England and Wales under the Companies Act 1985 and re-registered as a public company on 24 March 2016. The Issuer is authorised by the PRA and regulated by the PRA and the FCA.

The principal legislation under which the Group and its subsidiaries operate is the Companies Act 2006 and FSMA, and the regulations made thereunder.

The registered office of the Group and its UK based subsidiaries and the business address of each of their directors for matters concerning the Group and/or its subsidiaries' business is Level 25, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, United Kingdom. The telephone number of the registered office is +44 (0) 20 7770 5300.

1.2 History and ownership of the Group

When the Group was established in 2007 it was a wholly-owned subsidiary of Goldman Sachs. In December 2017, Goldman Sachs divested all of its remaining shares to subsidiaries of Blackstone, GIC and MassMutual, who are the ultimate shareholders of the Group and its subsidiaries and hold their interest through shares in RHUK.

These shareholders hold the following percentage interests in the Group (such percentages representative of each shareholders' economic holding of shares in RHUK):

- BTO Rothesay Holdings LLC, a subsidiary of Blackstone, holds a 34.6 per cent. interest in RHUK (the "**Blackstone Shareholder**");

- Cambourne Life Investment Pte Ltd, a fund managed by GIC, holds a 34.6 per cent. interest in RHUK (the "**GIC Shareholder**"); and
- MM Rothesay Holdco US LLC, a fund managed by MassMutual, holds a 23.8 per cent. interest in RHUK (the "**MassMutual Shareholder**"),

(together, the "**Shareholders**").

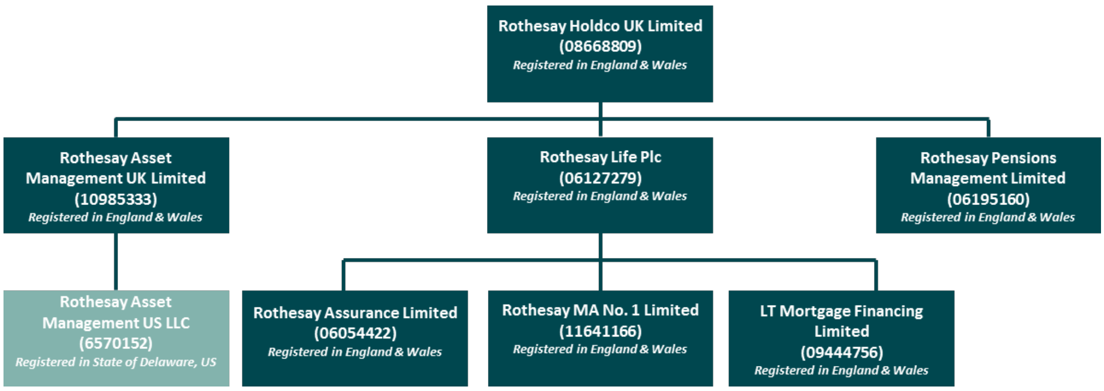
The remaining shares are held by the management of the Group and the Employee Benefit Trust.

The Group is subject to certain shareholder reserved matters which, in broad terms, require the consent of two out of the three Shareholders that own ordinary voting shares in the capital of RHUK ("**Shareholder Reserved Matters**"). The Shareholder Reserved Matters include items which are outside the scope of the ordinary course or day-to-day operations of the Group, such as any changes to the constitution or the capital structure of the Group, the approval of significant transactions, as well as amendments to the Group's risk, investment and capital policies. Consent of the relevant Shareholders is also required for material decisions relating to expenditure, business operational and regulatory matters, as well as certain changes to the Group's directors and the overall governance of the Group.

Each entity within the Group and their subsidiaries are managed by a board of directors, with the board of RHUK having overall responsibility for the Group and its subsidiaries. The board of the Issuer shares common directors with the board of RHUK. See "– *Board of Directors*" for further information regarding the board and governance structure.

1.3 Organisational structure of the Group and its subsidiaries

The organisational structure of the Group and the other operating subsidiaries within the Group's corporate structure as at 31 December 2018 is outlined below[1]:



RHUK is the holding company of the Issuer, Rothesay Asset Management UK Limited ("**RAM**") and Rothesay Pensions Management Limited ("**RPML**"). The nature of RHUK's business is to act as the ultimate holding company for all entities within the Group and their subsidiaries.

RPML provides the management and operational services required by the Group and manages the provision of certain related services to the Group through outsourcing arrangements. RPML was incorporated as a private limited company in England and Wales on 30 March 2007, with registered number 06195160. The services provided by RPML are conducted exclusively for the Group and include policy administration, information technology, finance and facility management services. All employees

[1] Rothesay Assurance Limited is currently in the process of being wound up.

and consultants of the Group are employed by RPML. Any costs associated with RPML are recharged back to the operating companies in the Group.

LT Mortgage Financing Limited ("**LTMF**") was incorporated as a private limited company in England and Wales on 17 February 2015, with registered number 09444756. During December 2018, £1.3bn of equity release mortgage loans were transferred from RLP to its subsidiary LTMF. LTMF became the beneficial owner of the equity release mortgage loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the equity release mortgages.

Rothesay MA No.1 Limited ("**RMAL**") was incorporated as a private limited company in England and Wales on 24 October 2018, with registered number 11641166. During December 2018, £778m of ground rent loans were transferred from RLP to its subsidiary RMAL. RMAL became the beneficial owner in the ground rent loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the ground rent loans.

RAM was established on 27 September 2017 as a holding company for a wholly-owned subsidiary, Rothesay Asset Management US, LLC, established in New York, NY, USA on 6 October 2017. Rothesay Asset Management US, LLC was established to assist the Group in originating U.S. assets on behalf of the Issuer.

As at 31 December 2018, the Group and its subsidiaries had 210 employees, excluding the Non-Executive Directors.

1.4 Summary of Group entities

Name of entity[2]	Shareholders[3]	Country of incorporation	Nature of business
Rothesay HoldCo UK Ltd	BTO Rothesay Holdings L.P. (Blackstone Tactical Opportunities Advisors LLC): 34.6% Cambourne Life Investment Pte Ltd (GIC Special Investments Pte Ltd): 34.6% MM Rothesay Holdco US LLC (Massachusetts Mutual Life Insurance Company): 23.8% Management and Employee Benefit Trust: 7.0%	England and Wales	Holding company
Rothesay Life Plc (the Issuer)	Rothesay HoldCo UK Limited: 100%	England and Wales	Operating company
Rothesay Pensions Management Limited	Rothesay HoldCo UK Limited: 100%	England and Wales	Service company

[2] Each subsidiary has only one class of ordinary shares. RHUK has ordinary shares and certain other classes of non-voting shares in issue.

[3] Each subsidiary operates mainly in its country of incorporation.

Name of entity[2]	Shareholders[3]	Country of incorporation	Nature of business
Rothesay Asset Management UK Limited	Rothesay HoldCo UK Limited: 100%	England and Wales	Service company
Rothesay Asset Management US, LLC	Rothesay Asset Management UK Limited: 100%	NY, United States of America	Service company
Rothesay Assurance Limited	Rothesay Life Plc: 100%	England and Wales	Service company (dormant)
LT Mortgage Financing Limited	Rothesay Life Plc: 100%	England and Wales	Service company
Rothesay MA No.1 Limited	Rothesay Life Plc: 100%	England and Wales	Service company

2 Pension Risk Transfer Market Overview

The Group operates in the pension risk transfer market. The pension risk transfer market involves (i) the sale and acquisition of wholesale insurance annuity portfolios to defined benefit pension schemes and their members, as well as (ii) the sale and acquisition of existing annuity portfolios from other insurers and reinsurers. The pension risk transfer market also includes longevity reinsurance transactions, the aim of which is to transfer the risk of defined benefit pension scheme members living longer than expected from defined benefit pension schemes to an insurer. De-risking pension schemes by means of longevity reinsurance transactions is not a primary transaction structure pursued by the Group.

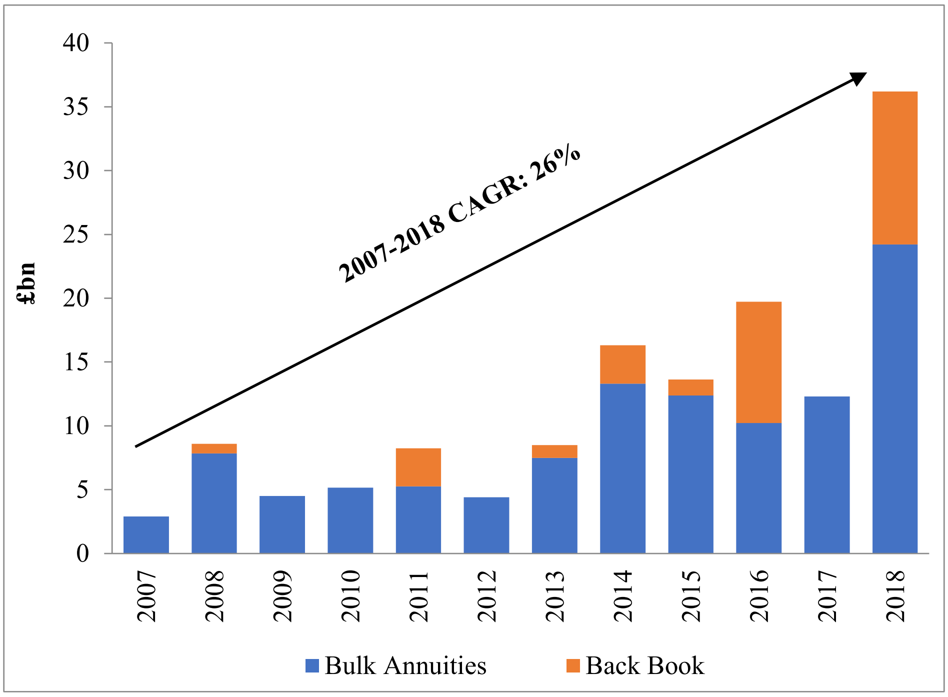
2.1 Market performance and composition

The market in which the Group operates is currently experiencing a period of strong growth. Whilst volumes in the bulk annuity market reached record levels, the Group has exercised its strict business selection procedures to ensure it only targets those transactions where it can add value and which meet its return targets. Increased competition has meant that some of the business that has been transacted by its competitors in 2017 and 2018 would not have met its return thresholds. However, the outlook for the bulk annuity market going into the second half of 2019 remains strong, with a number of large opportunities in the pipeline. This will be boosted further by any rise in long-term real interest rates as this would make pension de-risking more affordable for most pension schemes.

The outlook for back-book transactions looks positive. A number of UK insurance companies have exited the individual annuity market which means that their annuity portfolios are no longer core. As a result, the management of the Group believes that there are likely to be a number of opportunities to acquire back-books of annuities over the next few years. The successful experience with the £12 billion PACL Reinsurance Transaction, the £6.4 billion Scottish Equitable Plc ("**Aegon UK**") and £1.1 billion Zurich Assurance Limited ("**ZAL**") transactions (see "*– Selected transactions executed by the Issuer*") puts the Group in a leading position to execute future transactions.

Since 2007, the volume of pension risk transfer and back book transactions has grown at a compound annual growth rate of greater than 17 per cent. as compared to the previous year. The following graph shows the overall growth in the total value of pension risk transfer transactions between 2007 and 2017, with 2017 still subject to change, and KPMG's prediction for the total value of pension risk transfer transactions for 2018.

Historical and Current UK Pensions Risk Transfer and Back Book Value (£billion)



Source: KPMG, "2018 Bulk Annuity Market Insight" – Supplementary Materials; LCP, "LCP pensions de-risking report - 2019"

Much of the bulk annuity market is intermediated through employee benefits consultants and other advisers who help facilitate transactions and advise trustees and corporate sponsors who wish to reduce or eliminate the risk associated with their pension obligations. While the total defined benefit pension liabilities in the UK amounted to £2.2 trillion at the end of 2018[4], only £110 billion had been transferred from 2007 to 2018, according to KPMG and LCP.

Since 2006, corporate scheme sponsors paid over £175 billion in special contributions into UK defined benefit schemes[5], the number of open schemes dropped by 31 percentage points from 43 per cent. in 2006 to 12 per cent. in 2018[6] and portfolio compositions of defined benefit schemes were de-risked to focus on lower risk gilts and fixed income instruments, increasing the percentage of bond holdings by 20.5 percentage points from 22.6 per cent. in 2006 to 43.1 per cent. in 2018.[7]

KPMG predicts further growth of the bulk annuity market at a compound annual growth rate of greater than 9 per cent. as compared to the previous year for the years 2018 to 2026 in their central demand forecast, which is based on future expected increase in funding levels allowing for existing recovery plan contributions and yield curve/asset returns in line with expectations plus continued conversation rate around 3 per cent. The market participants are expecting volumes to exceed £30bn during 2019[8].

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4 *Source: The Pensions Regulator Purple Book 2018.*

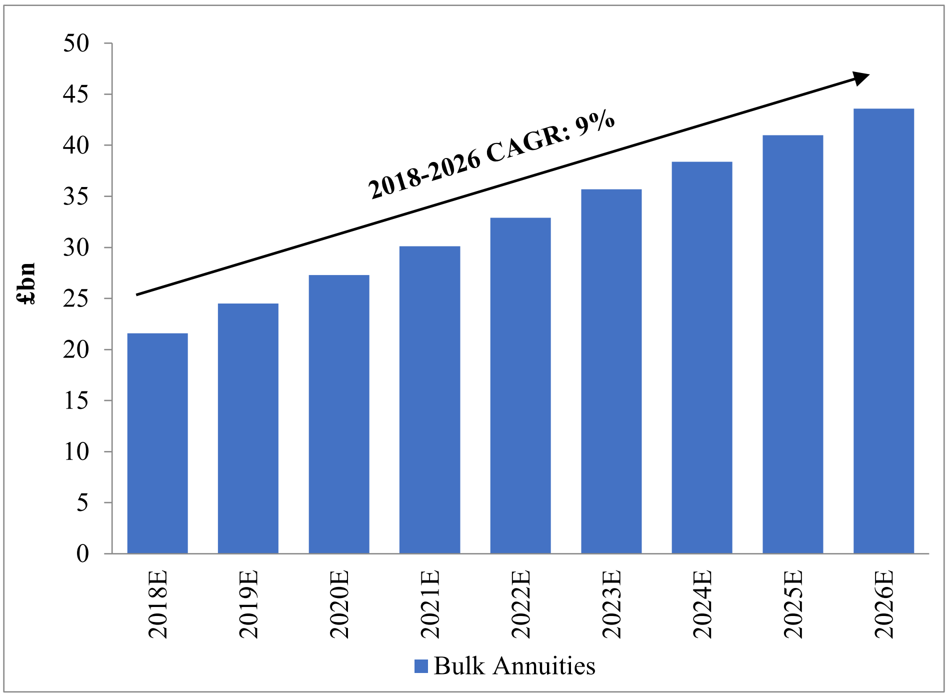
5 *Source: MQ5, Investment by Insurance Companies, Pension Funds and Trusts, Office for National Statistics.*

6 *Source: The Pensions Regulator Purple Book 2018.*

7 *Source: The Pensions Regulator Purple Book 2018.*

8 *Financial Times: Market for UK pension transfers doubles in first six months, 25 June 2019.*

UK Pensions Risk Transfer Value Prediction (£billion)



Source: KPMG, "2018 Bulk Annuity Market Insight" – Supplementary Materials

Accordingly, management considers that there is high growth potential in the market in which the Group operates and that strategic options may exist for the Group through funded reinsurance transactions for annuity liabilities and/or further acquisition opportunities.

2.2 Market growth factors

The growth in the market in which the Group operates is attributable to a number of key underlying structural features which represent fundamental changes to the insurance industry in recent years. Such features include:

- the introduction of the Pensions Act and the Pensions Regulator conferring significant powers on scheme trustees, including in relation to a company's strategic corporate activities (for example, mergers and acquisitions) with the aim of ensuring that scheme members' interests are adequately protected and/or enhanced, which has had the effect of moving defined benefit pension obligations up the corporate capital structure;

- equity market investors are increasingly discounting company stock valuations to embed the value of defined benefit pension schemes at a fair market value or at the cost of executing a full buy-out. As a result, companies may seek to protect their company stock valuations and enhance value by removing their pension scheme exposures through undertaking a de-risking transaction;

- legislative change has meant that defined benefit pension scheme trustees have greater powers to influence corporate activities and restrict the flexibility to companies to undertake strategic transactions (for example, mergers and acquisitions) without taking into account the de-risking of the defined benefit pension scheme, which has resulted in increased funding demands. To remove potential obstacles and enhance their flexibility, companies are willing to de-risk and remove their pension scheme exposures;

- an increased focus of companies and defined benefit pension schemes on de-risking scheme assets and on liability management, with corporate management teams acknowledging the need to pursue full de-risking transactions to remove the risks associated with defined benefit pension schemes from corporate balance sheets permanently;
- the quality of advisers facilitating transactions is increasing and the extensive number of precedent transactions has provided such advisers with more experience to deal with the intricacies of these types of transactions;
- trustee education and the acknowledgement of longevity and market risks associated with the defined benefit pension schemes have evolved as the industry for pensions de-risking transactions has matured. These factors have facilitated companies and pension schemes being more willing to pursue de-risking transactions;
- the bulk annuity sector has been relatively insulated from, and unaffected by, the changes implemented by the 2014 budget in the United Kingdom. The volumes in this sector have been robust and demand from pension schemes to undertake pensions de-risking transactions has remained high; and
- almost 90 per cent. of defined benefit pension schemes are now closed and defined benefit pensions are no longer offered to new employees as a benefit. Companies are therefore not incentivised to maintain a pension scheme and are willing to de-risk the liabilities.

As a result of these changes, companies and defined benefit pension schemes have become increasingly aware that funding pension plans and/or implementing partial risk management actions in respect of pension plans do not desensitise all of the market, economic and longevity risks associated with their defined benefit pension schemes. As a result, companies and defined benefit pension schemes are more actively considering, and working towards, full buy-out transactions in order to de-risk their pension plans. Management considers that the continuation of this trend is encouraging for the Group and its ability to continue to source new business.

2.3 Other market participants

The principal participants in the market in which the Group operates include the Group, Aviva, Legal & General and Pension Insurance Corporation. Just Group also competes to acquire smaller and medically underwritten bulk annuities. A number of other insurance companies (for example, Canada Life, Phoenix and Scottish Widows) have also recently entered the market. In addition, a new type of defined benefit scheme consolidator (such as The Pension SuperFund or Clara Pensions) could enter the market targeting slightly less funded schemes than the insurance incumbents.

2.4 Market drivers

In light of the increased growth in the market in which the Group operates and interest from companies and defined benefit pension schemes in pursuing full de-risking solutions, there are a number of key drivers which are likely to affect the volume of transactions in such market.

2.4.1 Scheme affordability and interest rates

The most significant driver of volumes in the market is the affordability of pensions for companies and defined benefit pension schemes, which is most directly affected by the level of real interest rates. As real interest rates increase, generally yields on the assets held by defined benefit pension schemes also increase, which results in the liabilities held by such defined benefit pension schemes being discounted at a higher rate. This has the effect of reducing the size of those liabilities and makes de-risking transactions more economically beneficial for companies and defined benefit pension schemes. The opposite is also true when real interest rates fall. Any increase in real interest rates is expected to add materially to the number of de-risking transactions undertaken by companies and defined benefit pension schemes.

2.4.2 Regulatory changes to insured annuities

The Group also actively pursues opportunities to acquire portfolios of annuities through reinsurance transactions followed by Part VII Transfers. The total value of in-force annuities in the UK is estimated to be approximately £300 billion. With the introduction of legislative and regulatory changes, such as Solvency II, and alterations to the taxation treatment of pension schemes that will provide greater flexibility to individuals in relation to their annuities, a number of annuity businesses in the market have become, or will become, non-core. This may provide the Group with alternative growth opportunities similar to its acquisition of Paternoster Limited in 2011 or MetLife's bulk annuity business in 2014, as other participants look to divest this type of business. Such regulatory changes may present opportunities such as the Group's transaction with ZAL covering £1.1 billion of annuities and Aegon UK covering £6.4 billion of annuities, and the reinsurance of £12 billion of annuities from PACL for an interim period pending the legal transfer of the annuity portfolio to the Issuer, pursuant to a Part VII Transfer.

2.4.3 Regulatory changes to the pension risk transfer market

The UK insurance industry also faces the risk that the proposed framework for defined benefit pension scheme consolidation highlighted in the Department for Work & Pensions white paper "Protecting Defined Benefit Pension Schemes", leads to the emergence of an alternative option for sponsoring employers wishing to settle their defined benefit pension scheme liabilities. If pension schemes were to transfer their liabilities to new defined benefit pension scheme consolidators then demand for the Group's product range may fall. Pensions schemes can transfer their liabilities now but as far as the Group is aware to date there have been no transfers to the new pension scheme consolidators. Also, the Department for Work & Pensions has an outstanding response to its consultation on a new legislative framework for authorising and regulating these schemes issued subsequently to the white paper which included suggested restrictions on when pension schemes can transfer liabilities to these consolidators.

3 Business of the Group

3.1 Overview of the Group's business, services and products

As noted above, the Group's principal business activities involve the provision of wholesale insurance annuity products to defined benefit pension schemes and other insurance companies through:

- conducting buy-in and buy-out transactions for defined benefit pension schemes; and
- acquiring annuities through the reinsurance and/or the acquisition of portfolios of in-force annuities from other insurance companies, as well as through strategic acquisitions of other insurance companies specialising in annuities.

Such insurance solutions are tailored to meet the specific needs of the relevant company or defined benefit pension scheme. There are two primary reasons why bulk annuity products are utilised by companies and defined benefit pension schemes:

- first, as a means of transferring the risks and liabilities deriving from obligations owed by defined benefit pension scheme trustees to their members, from such defined benefit pension scheme to an insurance company; and

- secondly, to transfer the obligation of defined benefit pension scheme trustees to pay any benefits accruing under insurance policies to an insurance company, through the issuance of individual annuity insurance policies to policyholders.

The Issuer is authorised by the PRA and regulated by the PRA and the FCA to write long-term insurance covering certain specific risks associated with their clients' pension obligations. All new business within the group is currently written by the Issuer.

3.2 **Strategy and business philosophy**

The Group's primary objective is to take advantage of the significant opportunity in the structurally high growth pensions de-risking market, as well as to protect and reinvest surplus capital to fund further growth without absorbing market volatility. The Group also seeks to generate stable returns for the Shareholders and consistent underlying earnings, while meeting obligations to debt holders and providing for the certainty and security of pension payments to policyholders by writing bulk annuity and other bespoke insurance solutions that correspond to the Group's risk tolerance and return metrics. The Group focuses on selecting transactions that offer the most attractive returns for the Shareholders, taking into account the associated risks and capital required, while also trying to ensure the security of pension payments to policyholders.

The Group aims to deliver this objective through a strategy involving three key elements, as outlined below:

(a) protecting the Group's in-force balance sheet through:

- a conservative, economic capital-based approach to underwriting;
- a risk management framework that utilises an integrated asset, liability, capital and risk infrastructure;
- avoiding unrewarded and unnecessary risks to protect the balance sheet and so ensuring surplus capital can be deployed to grow the business; and
- a focus on a robust solvency position which safeguards the security of policyholders;

(b) achieving growth through writing value-driven new business by:

- an approach to the origination of business across the market cycle and different transaction types that focuses on quality rather than volumes;
- focusing on the allocation of the Group's capital on new business opportunities that offer the highest value for the Group within its risk tolerance; and
- pursuing a range of new business opportunities including organic growth, acquiring secondary assets and undertaking strategic acquisitions; and

(c) safeguarding the Group's brand and culture through:

- building the Group's business on a foundation of stable long-term relationships and avoiding opportunities that may be speculative;
- supporting a risk-management-focused and solutions-driven culture to facilitate the Group being regarded as a trusted counterparty to major UK and global companies;
- maintaining excellence in the delivery of services to the Group's clients and policyholders; and

- recruiting and retaining experienced professionals within the financial services industry.

This strategy is supported by the Group's business philosophy, as set out below:

- **proprietary risk management technology, systems and infrastructure**: sophisticated and integrated systems operated by the Group ensure daily capital and risk reporting, which allow the Group's trading team to manage all aspects of the balance sheet dynamically, react appropriately to evolving market conditions and maintain capital efficiency. The Group utilises a high degree of automation and high-technology systems to allow outsourced administration platforms to interact with the Group's risk systems, in order to minimise discrepancies and ensure the highest levels of customer service. The Group adopts a cautious and controlled approach to risk underwriting, which it combines with quantitative analysis and detailed legal and operational due diligence carried out by a specialist team;

- **specialist asset management strategy**: the Group's investment team identifies long-term investments which provide the appropriate returns to the Shareholders while minimising the exposure of the business to credit and market risks;

- **strategic use of reinsurance**: the Group adopts a strategy of ceding longevity risks to reinsurers in order to reduce exposure to longevity risk. Ceding longevity risks through entering into longevity swaps also helps reduce long-term counterparty risk. Collateral arrangements are also established with reinsurers to further mitigate counterparty risk;

- **long-standing capital efficient annuities model with low leverage**: the Group's capital model has been developed to be efficient and to optimise the economic capital requirements of writing bulk annuities. Management considers that the Group's annuities model is more efficient when compared with the annuities models of other market participants, which it believes is attributable to the Group's asset strategy, strategic use of reinsurance and its risk management framework;

- **consistent new business growth, profits and cash generation**: the Group's dedicated and experienced marketing and origination team sources new wholesale annuity business opportunities, ensures disciplined selection of new business, promotes such opportunities to the Group and maintains long-term relationships with intermediaries such as employee benefits consultants and other advisers; and

- **select equity ownership**: the shares in RHUK are held by a select group of institutional shareholders, which all have access to substantial pools of capital to support the continued growth of the Group.

The Group's business philosophy has been developed with a strong focus on risk management, which plays a critical role in writing bulk annuity and other bespoke insurance solutions and aligns with the Group's objective of generating stable shareholder returns while providing for the certainty and security of pension payments to policyholders. Management considers that such focus helps it ensure that the business underwritten and managed by the Group meets or exceeds the return on capital targets set by the Shareholders. The Group's approach to risk management is discussed in "*– Risk management*".

3.3 New business origination

The Group originates new business with the assistance of a team comprising experienced insurance and pensions professionals who are experts in their relevant fields. The team focuses on a solutions-driven approach through the disciplined selection of new business opportunities and is a market leader in the execution of large transactions. The Group has completed many types of pensions de-risking transactions, including buy-in transactions, buy-out transactions, longevity reinsurance transactions and reinsurance-related acquisitions. Such transactions have ranged in size from £60 million to £12 billion. This includes two successful corporate acquisitions, each of which involved greater than £2.7 billion of assets being acquired by the Group. The result of such transactions is that the total lives insured by the Group were 772,665 at the end of the financial year 2018.

3.4 Key services and products

As noted above, the Group conducts buy-in and buy-out transactions for companies and defined benefit pension schemes in the UK. In addition, the Group sources wholesale annuity business through reinsurance transactions and/or by acquiring insurance companies or their in-force annuity portfolios.

A summary and explanation of these three product categories is as follows:

- **bulk annuity pension buy-in transactions**: a defined benefit pension scheme acquires a bulk annuity policy from the Issuer under which the Issuer agrees to pay to the defined benefit pension scheme trustee certain specific benefits that may become payable to all or a portion of the defined benefit pension scheme's members and their eligible dependants for as long as they live. The responsibility and obligation for payment to the defined benefit pension scheme's members remains with the defined benefit pension scheme. As a result, the bulk annuity policy insures the pension benefit payments due to be paid by the defined benefit pension scheme to the relevant portion of such defined benefit pension scheme's members and the defined benefit pension scheme holds the bulk annuity policy as an investment. This type of transaction is often a first step towards a pension buy-out;

- **bulk annuity pension buy-out transactions**: a defined benefit pension scheme acquires a bulk annuity policy from the Issuer under which the Issuer agrees to pay all pension benefit payments due to all of the defined benefit pension scheme's existing members, and the defined benefit pension scheme is subsequently wound up entirely by the defined benefit pension scheme trustee. For an interim period prior to such winding-up, the Issuer pays to the defined benefit pension scheme trustee all of the current benefits payable to the defined benefit pension scheme's members. During this period, the responsibility for payments to the members of the pension scheme remains with the trustee of the defined benefit pension scheme while the Issuer prepares to take on the administration of such payments. After the Issuer completes such preparations, the bulk annuity policy is replaced with a collection of individual policies which are then issued to each member of the defined benefit pension scheme, with the effect that such members become policyholders of an annuity issued by the Issuer and the original defined benefit pension scheme is wound up. Many of the Group's bulk annuity arrangements begin as buy-in transactions and will likely evolve into buy-out transactions over time as trustees take the necessary steps to wind up their defined benefit pension schemes; and

- **reinsurance**: an insurance company enters into a reinsurance agreement with the Issuer under which the Issuer agrees to insure a specified number of annuity obligations that have previously been acquired by the insurance company. These obligations arise from both bulk annuity business and the sale of individual annuities. Upon entering into such agreement, the Issuer becomes responsible for the payment of a defined number of pension payments on behalf of the insurance company, in consideration for the Issuer receiving an upfront premium from the insurance company. This upfront premium is typically paid by the insurance company transferring assets to the Issuer. Reinsurance is often followed by a full legal transfer to the Group of the underlying annuities that have been insured by it, pursuant to a Part VII Transfer (at which point the Group becomes the insurer).

3.5 Summary of business written by the Issuer

The table below shows the value of new business premiums written by the Issuer from 1 January 2016 to 31 December 2018,[9] including acquisitions and reinsurance transactions, but excluding longevity reinsurance transactions.

Summary of Business Written by the Issuer

	2016 (£m)	2017 (£m)	2018 (£m)
Group pension bulk annuities................................	21	978	928
Assumed reinsurance premiums............................	6,589	206	12,233
Total..	6,610	1,184	13,161

3.6 Growth in new business volumes

The Group achieved unaudited new business volumes of £0.7 billion for the half year ended 30 June 2019 and audited business volumes of £13.2 billion for the 2018 financial year.

Consistent growth in new business has been achieved through a mix of organic growth and from undertaking selective acquisitions of whole companies and legacy back books. Organic growth has been facilitated by effective transaction structuring, transaction execution and a disciplined approach to underwriting.

The table below summarises the cumulative new business volumes of the Group since 2008. The cumulative new business of the Group since this time, up to and including 30 June 2019, was £41.6 billion.[10]

[9] This table does not include the acquisitions and reinsurance transactions written by the Issuer that are listed in the summary table of transactions in the section headed "*Description of the Issuer and the Group – Selected transactions executed by the Issuer*" which were executed prior to 1 January 2016 or after 31 December 2018.

[10] Figures up to and including the financial year ended 31 December 2018 are audited. Figures for the half year ended 30 June 2019 are unaudited.

	Cumulative New Business		
Year	Buy-in and Buy-out Transactions (£bn)	New business from acquisitions and legacy back books (£bn)	Total (£bn)
2008	0.7	-	0.7
2009	3.0	-	3.0
2010	4.3	-	4.3
2011.........................	6.7	3.0	9.7
2012	7.7	3.0	10.7
2013	9.3	3.0	12.3
2014	10.8	5.7	16.5
2015	13.1	6.9	20.0
2016	13.1	13.4	26.5
2017	14.1	13.7	27.8
2018	15.0	25.9	40.9
HY 2019.................	15.7	25.9	41.6

Note that business acquired through acquisition consists entirely of bulk annuity business. Legacy back books consist of a mixture of individual annuities and bulk annuities.

3.7 **Selected transactions executed by the Issuer**

Set out below is a summary of selected buy-in, buy-out and reinsurance transactions undertaken by the Group through the Issuer. Except as otherwise indicated, each of the transactions listed below has been completed in all material respects.

Selected Transactions Completed by the Issuer

Prudential Assurance Company Limited[11]	£12 billion reinsurance transaction	March 2018
Scottish Equitable Plc (Aegon UK)	£6.4 billion reinsurance transaction	April 2016
Airways Pensions Scheme	£2.9 billion buy-in transactions and follow-on longevity swaps	2010-2013
Paternoster Limited	£2.9 billion acquisition	January 2011
MetLife Assurance Limited	£2.7 billion acquisition	May 2014
RSA Insurance Group Pension Scheme and SAL Pension Scheme	£1.9 billion buy-in transaction	July 2009

[11] The Issuer is currently undertaking the Part VII Transfer in relation to PACL, which management expects will complete in 2019, shortly after court approval is received for the transfer of the legal title to the Issuer of the annuity portfolio from PACL.

Selected Transactions Completed by the Issuer

Civil Aviation Authority Pension Scheme	£1.6 billion buy-in transaction	July 2015
Zurich Assurance Limited	£1.1 billion reinsurance transaction	April 2015
Uniq plc Pension Scheme	£837 million buy-out transaction	December 2011
Rank Pension Plan	£700 million buy-out transaction	June 2008
Merchant Navy Officers Pension Fund	£689 million buy-in transaction	December 2012
Lehman Brothers Pension Scheme	£644 million buy-out transaction	April 2015
Royal Mail Pension Plan	£450 million buy-in transaction	July 2017
InterContinental Hotels UK Pension Plan	£427 million buy-out transaction	August 2013
Cobham Pension Plan	£282 million buy-in transaction	July 2013
Tullett Prebon Pension Scheme	£270 million buy-in transaction	April 2017
General Motors Retirees Pension Plan	£229 million buy-in transaction	October 2012
Smith & Nephew UK Pension Fund and Smith & Nephew UK Executive Scheme	£192 million buy-in transaction	January 2013
Toshiba Pension and Assurance Scheme	£170 million buy-out transaction	February 2018
TI Group Pension Scheme	£148 million buy-in transaction	September 2011
Laird Pension Scheme	£110 million buy-out transaction	April 2019

3.8 Underwriting of new business by the Issuer

The underwriting cycle in the context of the Group's business involves the transfer by a pension scheme of pension premiums and full liabilities to the Issuer, in exchange for the Issuer transferring insured benefits to such pension schemes to facilitate the payment of pension benefits to its members. The Group adopts a meticulous approach to the underwriting of new business as part of its risk management strategy, which involves evaluating and quantifying the key risks associated with acquiring pension annuity liabilities prior to the completion of a transaction. The Group's approach to risk management during the underwriting cycle can be summarised as follows:

- securing certainty of insured benefits, clarity of contracts and operational precision in order to reduce operational risk, which requires the Group to undertake significant due diligence in order to assess the new business, which is discussed in more detail below;
- achieving certainty of cash flows through selective use of longevity reinsurance in the form of longevity swaps in order to mitigate longevity risk. This results in liabilities being fixed for improved asset and liability matching;

- hedging interest rate and inflation exposures through the use of collateralised and marked-to-market swaps in order to reduce the interest rate and inflation risk inherent in the underlying pension liabilities, as well as the assets that the Group invests in. This requires the Group to adopt proprietary risk management strategies, which are discussed in more detail in "*– Risk management*";
- adopting a strategy to secure an illiquidity premium with minimal credit risk in order to mitigate investment and counterparty risk. This also requires the Group to adopt proprietary asset management strategies, which are discussed in more detail in "*– Investment management*"; and
- strong focus on ongoing risk evaluation, monitoring and mitigation through daily profit and loss and solvency monitoring in order to reduce balance sheet and solvency volatility. This requires the Group to adopt a strong risk management focus, which is discussed in further detail in "*– Risk management*".

The Group's underwriting team comprises actuarial, pensions, operational, trading, investment and legal expertise. The Group operates an integrated asset-liability risk model and benefits from sophisticated computer systems that allow all pension liability acquisitions to be assessed in real time against prevailing market conditions and other investment opportunities. This approach allows the Group to be opportunistic where value is identified and responsive to clients' needs, while also protecting the Group's balance sheet by ensuring that underwriting standards are continually maintained to enable the Group to achieve its objectives.

In broad terms, the process adopted by the Group when it is considering whether to underwrite new business is as follows:

- **modelling**: each underlying policyholder is due a prescribed set of payments over time. The Group models and projects these payments individually to ensure that the value and timing of such payments is correct. This process requires the Group to carry out extensive legal and administrative due diligence in relation to an investment opportunity. The underwriting team conducts extensive due diligence consistent with industry standards to quantify and mitigate operational and data-related risks prior to the completion of a transaction;
- **longevity analysis**: the Group carries out detailed demographic analysis of an investment opportunity using proprietary information, projection models and a substantial experience database. In many instances, the Group also underwrites alongside its specialist life reinsurance partners to ensure that the Group's longevity analysis of an investment opportunity is consistent with such partners, in order to further mitigate any risks associated with such investment opportunity;
- **investment management**: the Group adopts a conservative investment strategy and uses cash flow projections to identify suitable available investment opportunities and assess whether they are consistent with its low-risk asset strategy. This process takes into account the relevant projected term of the business acquired;
- **risk management**: the Group reviews and evaluates the cost of hedging both market and demographic risks associated with an investment opportunity, assesses residual risks in the context of the Group's risk appetite and low-risk asset strategy and quantifies reserves for any remaining unhedgeable risks that are associated with an investment opportunity;
- **capital management**: management evaluates the underlying characteristics of the new business in the context of the Group's investment and risk management strategy to determine the capital

utilisation, profitability and return metrics for the new business that the Group would be able to achieve should it underwrite the new business;

- **deal assessment**: all investment opportunities are subject to a rigorous approval process involving the Group's senior executives, relevant committees and, if required, the board of the Issuer and the Shareholders. The Group also ensures the PRA and FCA are informed and any required approvals or non-objections are sought appropriately; and
- **due diligence, contracts and execution**: additional confirmatory due diligence is completed in relation to an investment opportunity should it be required. Agreements are negotiated, agreed and executed by the Group's legal team supported by external advisors. The Group aims to reduce the risk of any future uncertainties through appropriate contractual terms.

This approach to underwriting assists the Group in selecting and executing investment opportunities that are consistent with its desired risk profile and strategic aims by ensuring that (i) the risks and liabilities associated with an investment opportunity are well understood and can be minimised, (ii) such investment opportunity is documented and priced appropriately, and (iii) such investment opportunity is capable of being hedged efficiently and accurately.

3.9 Investment management

3.9.1 Asset and liability management

As at 30 June 2019, the Group had unaudited assets under management of £37.7 billion. The Group's investment portfolio is managed in-house by a specialist investment team whose primary objective is to earn secure returns for the Group by investing in low-risk assets that benefit from collateral, hedging arrangements or other security, and extract value from any illiquidity associated with such assets. The Group's asset management activities integrate with the underwriting, risk and capital management functions of the Group.

In broad terms, the Group's current approach to asset management is to minimise outright credit default risk through collateral, credit protection or other structural security, which is facilitated by investing in fixed income instruments which are used to match the Group's long-term annuity liabilities, through an optimal combination of liquid investments, low-risk government bonds, less liquid assets and highly secured or collateralised investments, as well as cash. The Group aims continually to increase the rate of recovery on its investments in order to reduce the risk of credit losses.

The Group's limited appetite for outright credit default risk has resulted in an investment portfolio in the form of government guaranteed bonds and other assets with explicit structural security. As at 31 December 2018, the Group's investment portfolio mix comprised the following categories of investments:

- **government and supranational bonds**: 43 per cent. of the Group's portfolio was invested in low-risk government and supranational bonds, of which the majority were UK government bonds. This portion of the portfolio supports very long-dated cash flows but is also available to meet collateral calls and cash requirements should more cash be required by the Group;
- **secured residential lending**: 15 per cent. of the Group's portfolio was invested in lending against property or other collateral. These investments consist of lending against ground rent cash flows, covered bonds and social housing;

- **other secured lending**: 10 per cent. of the Group's portfolio was invested in other secured lending, including in the form of bilateral arrangements and total return swaps. Many of these investments are bespoke where very high levels of collateral have been negotiated and returns are generated through an illiquidity premium;
- **infrastructure**: 10 per cent. of the Group's portfolio was invested in regulated infrastructure such as water, energy and transportation. These investments are typically long-dated and secured by segregated low-risk cash flows;
- **corporate bonds**: 9 per cent. of the Group's portfolio was, given the size of the portfolio, invested in highly rated corporate bonds;
- **equity release mortgages**: 5 per cent. of the Group's portfolio was invested in equity release mortgages. Its equity release mortgage holdings are fully compliant with Supervisory Statement 3/17 (as amended by the Policy Statement 31/18) of the PRA;
- **cash**: 4 per cent. of the Group's portfolio was invested in immediately realisable cash investments, including overnight cash funds; and
- **other assets**: 4 per cent. of the Group's portfolio was invested in other assets, including universities, non-profits, commercial real estate assets and fixed income instruments.

Management considers that this combination of assets is appropriate for the Group to reduce and mitigate its credit risk, particularly given that this asset mix incorporates the use of security such as collateral provisions, structural features, enhancements and sovereign support from the UK as well as other highly rated sovereigns. This enables the Group to maintain a relatively low and manageable return target for its assets due to the low capital requirements associated with its investment portfolio. Such asset mix also assists to reduce balance sheet volatility resulting from credit spread volatility, in order to protect the capital surplus. The Group is also focused on ensuring that it achieves appropriate asset and liability cash flow matching. The durations of assets and liabilities are maintained within prescribed limits and management considers that the Group maintains sufficient liquidity buffers. The Group did not experience any losses due to defaults in relation to any of its assets during 2018 or the first half of 2019.

The composition of the Group's investment portfolio as at 31 December 2018 is set out in the table below:

Investment Assets as at 31 December 2018

	2018(%)
Government bonds	32
Secured residential lending (ground rents, covered bonds and social housing)	15
Supranational and quasi sovereign bonds	11
Other secured lending (tri-party repo, bilateral arrangements and total return swaps)	10
Infrastructure (transportation and utilities)	10
Corporate bonds	9
Equity release mortgages	5

Cash (UCIT funds)	4
Other (universities, non-profit, commercial real estate and negative basis)	4

3.9.2 Collateral and liquidity management

Given that a significant amount of the Group's investment portfolio is less liquid, management considers that it is important for the Group to manage its collateral held against those investments and hold substantial liquidity buffers at all times in order to minimise the Group's liquidity risk associated with potential liquidity calls. To achieve this, the Group operates a liquidity management framework which stress tests and reports liquidity continually to ensure that sufficient cash and liquid securities (primarily Gilts) are available to the Group at all times. In addition, the collateral received as part of the investments made by the Group is stress tested to ensure that the security of such investments is not compromised as a result of market-wide liquidity stresses. The Group's collateral and liquidity management functions are overseen by a dedicated treasury operations team and a trading desk.

3.10 Risk management

3.10.1 Risk management framework

The management of risk is central to the success of the business. The Group's governance arrangements strengthen this principle by adding challenge, oversight and independent assurance from the second and third lines of defence.

The Group applies all of its risk management, internal control systems and reporting procedures at a Group level and they are applied consistently across all entities in the Group, including the Issuer.

During 2018, the Group further invested in growing the size and capabilities of the risk function to ensure that the function is well-equipped to challenge and support the business as it continues to grow in line with the Group's business plan.

The Group looks to embed proactive and effective risk management across the organisation by means of the Risk Management Framework ("**RMF**"). The RMF informs, and is directed by, the Group's business strategy. Risk management considerations are integral to setting business strategy, as the Group seeks to optimise its risk-adjusted returns and create shareholder value whilst also meeting the expectations of its customers.

3.10.2 Core strategy

The Group's risk management principles are driven by the key objectives of the business:

- To ensure that its liabilities to policyholders and debt holders can be met in a full and timely manner over a very long-term;
- To maintain its financial strength and capitalisation;
- To produce stable earnings from its in-force business;
- To protect and increase the value of its shareholders' investment; and
- To safeguard the Group's reputation.

3.10.3 Board risk appetite and culture

The Group's risk appetite expresses the types of risk that the board of directors is willing to be exposed to in pursuing strategic objectives. The board of directors' risk appetite sets the tone for the culture of risk management throughout the organisation.

Its strategic approach is to de-risk its business in order to achieve attractive risk adjusted returns. The Group aims to protect regulatory surplus and minimise balance sheet volatility by hedging longevity risk and adopting a cautious approach to investment.

Risk taking is therefore limited to circumstances where the Group believes that it fully understands the inherent and residual risks, where it is able to manage them within prudent, observable levels and where incurring the risks provides sufficient value to its stakeholders.

The Group aims substantially to mitigate the financial risks in its portfolio in order to protect policyholders, lock-in value and to safeguard capital surplus such that excess capital may be deployed into attractive risk-adjusted new business opportunities where the Group believes it has a comparative advantage.

The risk appetite categorises risks as desired, tolerated or undesired. First order risks that are core to the Group's business model (desired), second order risks that it incurs as a result of its business model but seek to mitigate or manage to influence risk/return (tolerated) and second order risks that it seeks to eliminate fully to the extent possible (undesired).

3.10.4 Risk appetite quantification and limit framework

The risk limit and stress testing framework is intended to ensure the stability of earnings and solvency position of the business. Risk appetite is translated into quantifiable limits and early warning triggers that prompt management action to avoid our risk exposures breaching the board of directors' risk appetite. Limits exist in relation to market, credit, counterparty, liquidity, demographic and longevity risks and are sized with reference to the Group's overall risk appetite and capital position.

Furthermore, qualitative metrics have been defined to allow non-financial risks, such as reputational risks, to be monitored versus appetite.

3.10.5 Risk governance framework

The Group's risk governance arrangements strengthen the risk-taking and risk management by the business by adding challenge, oversight and independent assurance. The Group adopts the principles of a 'Three Lines of Defence' governance model for risk management that provides a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities.

- *First line:* Day-to-day risk management is delegated from the board of directors to the Chief Executive Officer ("**CEO**") and, through a system of delegated authorities, to business managers. The Group also makes the distinction between:
  - the risk-taking functions, including investment and new business origination; and
  - the control functions, whose responsibility it is to ensure the integrity of the Group's and the Issuer's operations and reporting. These include operations, finance and legal.
- *Second line:* Risk oversight is provided by the Chief Risk Officer ("**CRO**"), his team and risk management committees. The executive level Working Level Risk Committee is

chaired by the CRO and consists of relevant senior managers working within a delegated risk management framework. This committee, and its sub-committees, review all material new investment, hedging or liability transactions and is supported by a number of other committees which focus on risks arising from new activities, methodology and assumptions underlying the Group's financial modelling and the management of third party suppliers.

- *Third line:* Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the internal audit function.

The board of directors have overall responsibility for the management of the exposure to risks and is supported by the Board Risk Committee whose membership consists entirely of Non-Executive Directors and looks to ensure that the management of the business is conducted within the delegated risk framework from the main board of directors.

3.10.6 Systems and infrastructure

The Group operates an integrated system infrastructure which captures all assets and liabilities centrally and provides it with the capability to report and monitor risk daily at both the portfolio and the individual transaction level. Close co-ordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business, and that new business pricing reflects latest market conditions, hedging costs, investment opportunities as well as comprehensive liability analysis.

3.10.7 Policies, processes, procedures and key controls

The Group's risks are grouped into one of six categories: strategy, insurance, market, credit, operational and liquidity risk. The Group has developed appropriate processes and documented procedures, appropriate controls and other risk mitigation techniques in order to manage them effectively. The Group policy framework ensures that an appropriate suite of risk management policies is maintained which set out the principles and standards for risk identification, measurement, mitigation, control and monitoring.

3.10.8 Monitoring, reporting and management response

The Group monitors its risk exposures against risk appetite as well as management actions on a continued basis to confirm that its risk mitigations are effective. It then reports its monitoring to oversight committees and individuals with responsibility for risk management in order to inform business decisions. Monitoring considers both those risks that the Group is currently exposed, in addition to emerging risks that may impact the Group in the future.

3.10.9 Capability, resources and risk culture

The Group seeks to attract and retain the highest quality talent in the industry. The effectiveness of its risk management depends upon the high quality of staff employed by the Group and the strong risk culture and risk management practices. Consequently, training is conducted so that everyone understands their role in how to manage risk effectively and risk management is considered as part of all performance reviews.

3.10.10 Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment ("**ORSA**") is undertaken at least annually and involves an assessment of the risks to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise the Group's business plans. The ORSA is an important input to the Group's strategic planning cycle.

The Group also runs a number of stress tests on a weekly basis. The stresses have been developed so as to provide coverage over the key risks implicit within the portfolio at the time. Examples of stresses currently applied to the portfolio include issuer default stresses, property stresses, credit spread widening, credit downgrades and market risk stresses on liquidity outflows.

3.10.11 Continued development

The way the Group thinks of and manages risk is constantly evolving. The CRO is responsible for developing the RMF to ensure that risk management remains effective.

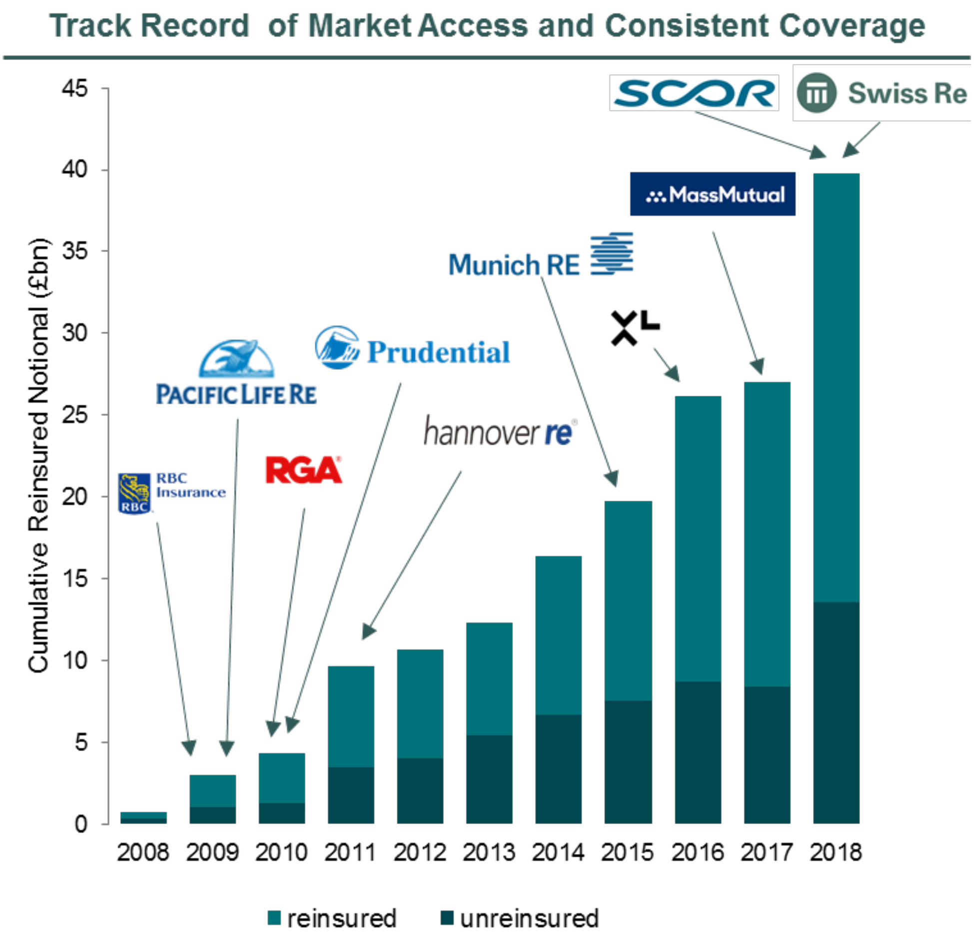
3.11 Reinsurance

The Group adopts a strategy of ceding longevity risks to reinsurers in the form of longevity reinsurance policies in order to reduce exposure to longevity risk and counterparty risk. Collateral arrangements are also established with reinsurers to further mitigate counterparty risk.

The Group considers that longevity reinsurance transactions are essential to its risk management framework, for the following reasons:

- while past experience of mortality rates provides a good indication of mortality rates in the future, such rates cannot be perfectly predicted given their long-term nature;
- the cost of reinsurance is typically less than the cost of capital on an economic basis;
- life reinsurers have significant capacity to transfer risk to the reinsurance market and are seeking opportunities to enter into longevity swaps in order to diversify mortality risk from their term life insurance businesses; and
- there is increased visibility in the market for how longevity risks can be priced, leading to opportunities for competitive and cost-efficient transactions.

The Group currently transacts with a number of third parties in the re-insurance market including XL Group (now AXA XL), Hannover Re, MassMutual, Munich Re, Pacific Life Re, Prudential Retirement Insurance and Annuity Company, RBC Insurance, Reinsurance Group of America, SCOR, and Swiss Re.



3.12 **Capital management and reserves**

The Group's (and the Issuer's) capital resources are of critical importance. The Group's (and the Issuer's) capital management framework is designed to meet the following objectives:

- to maintain financial strength in adverse conditions;
- to give customers long-term confidence in the Group (and the Issuer);
- to satisfy its regulatory obligations;
- to match the profile of its assets and liabilities, taking account of the risk inherent in the business;
- to allocate capital efficiently to support new business growth; and
- to retain financial flexibility by maintaining strong liquidity.

Under the Solvency II regime, the Group (and the Issuer) is required to hold the greater of the capital required under the Solvency II Pillar 1 framework and the capital required under its own economic capital models, Solvency II Pillar 2. The Group also ensures that its insurance company subsidiary, the Issuer, is capitalised to the greater of the economic capital requirement and the regulatory Pillar 1 position. In practice, it is the Pillar 1 requirement which is more onerous. In terms of management's policy for maintaining coverage, there is a formal target at the Group and Issuer level, both aim to maintain a coverage of at least 130 per cent. of the regulatory minimum SCR.

Under Pillar 1, the Group (and the Issuer) is required to hold sufficient assets to meet:

- The Group's technical provisions, being:
- The liabilities of the Group calculated on a best estimate basis (the "**BEL**"); and
- The cost of transferring non-hedgeable risks (the "**Risk Margin**"); plus
- The capital required to meet a 1-in-200 year stress (calculated on the basis of its PIM and a prescribed model (depending on the risk) and known as the solvency capital requirement or SCR).

Firms with illiquid liabilities, such as annuity business, can discount these illiquid liabilities using the risk-free rate plus the "matching adjustment spread". The matching adjustment spread is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities. The Group (and the Issuer) applies the matching adjustment in calculating the BEL for almost all of its single premium insurance business. The remaining liabilities are discounted at the risk-free rate.

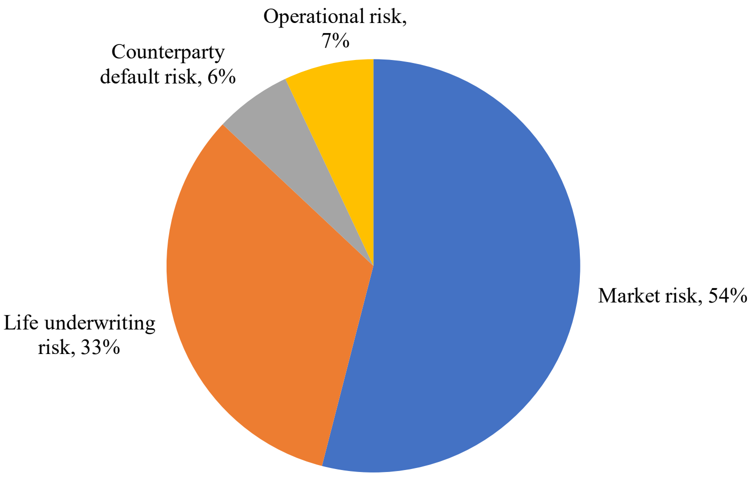
Assets in excess of that required to meet the technical provisions are known as "Own Funds".

As part of the transitional arrangements in relation to the introduction of Solvency II, the Group (and the Issuer) is permitted to take credit for transitional solvency relief which amortises linearly to zero, falling by 1/16th on 1 January 2017 and again each year thereafter. An application can be made to re-calculate the amount of transitional solvency relief that can be taken if the risk profile of the Group (and the Issuer) changes materially. As part of the application to use the PIM, the Group (and the Issuer) re-calculated its transitional relief on 31 December 2018.

The Group's (and the Issuer's) SCR is calculated using the PIM for the spread and counterparty risk modules and standard formula for all other risk modules. The diagram below provides a breakdown of the Issuer's SCR post-diversification benefit between modules. Life underwriting relates mainly to longevity risk. Market risk is primarily spread risk, i.e. the risk that credit spreads widen.

The use of the PIM ensures that the allocation of capital to investment is consistent with the low risk inherent in the types of highly secured and collateralised investments which are core to the Group's (and the Issuer's) investment strategy. Approval of the PIM also allowed the Group (and the Issuer) to restructure its holding of equity release mortgages to make them eligible for inclusion in the matching adjustment fund.

RLP SCR 31 December 2018



The Group (and the Issuer) has implemented a dynamic capital management framework which uses interest rate and other hedging to target stability of the IFRS balance sheet under normal conditions and seeks to manage both the IFRS and solvency balance sheets as conditions deteriorate.

The Issuer aims to manage SCR Coverage in the range of 130 per cent. to 150 per cent. Capital in excess of 150 per cent. can be returned to shareholders as dividends or retained for future business growth.

As coverage falls towards 130 per cent. then a range of actions could be taken, such as:

- Increased use of reinsurance which would reduce the SCR and Risk Margin;
- Change in investment mix, reducing exposure to assets with material capital requirements;
- Increased solvency hedging;
- Reduction in discretionary spend;
- Reduction in new business – because the Group does not have regular new business, new business volume can easily be reduced at the management's discretion without impacting franchise value; and
- Capital raising – a revolving credit facility can be injected as equity into the Issuer to improve solvency. It may also be possible to secure additional bank loans or to raise further equity or long-term debt.

The minimum capital requirement ("**MCR**") is intended to be the minimum amount of capital an insurer is required to hold pursuant to Solvency II below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations. The MCR is calculated according to a formula prescribed by the Solvency II regime 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 technical provisions and capital at risk. The eligible Own Funds to cover the MCR is subject to quantitative limits as shown below:

- the eligible amounts of Tier 1 capital should be at least 80 per cent. of the MCR; and
- the eligible amounts of Tier 2 capital shall not exceed 20 per cent. of the MCR.

MCR coverage ratio ("**MCR Coverage**") is the ratio of eligible Own Funds to cover the MCR to MCR.

The Group's MCR at 31 December 2018 was the same as RLP's MCR at £658 million. RLP's eligible own funds to cover the MCR were £3,368 million, which translates to an MCR Coverage of 512 per cent. The Group's unaudited MCR at 30 June 2019 was also the same as RLP's MCR at £0.68 billion. RLP's unaudited eligible own funds to cover the MCR were £3.54 billion, which translates to an unaudited MCR Coverage of 521 per cent.

4 Key Financial Information as at 31 December 2016, 31 December 2017 and 31 December 2018[12]

4.1 IFRS financial performance

Profit before tax for the financial year ended 31 December 2018 amounted to £114 million (FY 2017: £330 million; FY 2016: £337 million). RLP focuses on profit before tax as its primary measure of

[12] The financial information contained in this section is sourced from the financial statements of RLP for the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018, which are incorporated by reference into this Information Memorandum.

profitability because this metric includes recurring and non-recurring items as well as market fluctuations, and has a direct impact on distributable reserves and capital.

The result in 2018 was lower than in the previous years due to two significant drivers: the ongoing deployment of the assets received during the PACL Reinsurance Transaction and widening credit spreads leading to strengthened credit default provisions at the end of the year.

As at 30 June 2019, the Group has successfully deployed all of the assets received from the PACL Reinsurance Transaction in a manner consistent with its original underwriting and long-term investment strategy. This has helped contribute to the Group's first half unaudited pre-tax IFRS profit of £403 million on a consolidated basis[13].

The table below provides a summary of the key line items in the consolidated statement of comprehensive income for RLP for the full financial years of 2016, 2017 and 2018.

Key Line Items – RLP
Consolidated Statement of Comprehensive Income

Income statement highlights (£m)	**FY2016 (£m)**	**FY2017 (£m)**	**FY2018 (£m)**
Gross premiums written	6,877	1,447	13,424
Less: premiums ceded to reinsurers	(700)	(781)	(1,369)
Net premiums written	6,177	666	12,055
Investment return	2,800	773	140
Total revenue	8,977	1,439	12,195
Policyholder claims	(1,384)	(1,479)	(1,876)
Less: reinsurance recoveries	593	736	1,275
Change in insurance contract liabilities	(7,864)	330	(10,694)
Change in the reinsurers' share of insurance contract liabilities	163	(500)	(567)
Net claims and change in insurance contract liabilities	(8,492)	(913)	(11,862)
Acquisition and administration expenses	(110)	(146)	(158)
Finance costs	(38)	(50)	(61)
Total expenses	(148)	(196)	(12,081)
Profit before tax	337	330	114
Income tax	(66)	(53)	(17)
Profit after tax	271	277	97

[13] The profit figure has been calculated in accordance with IFRS accounting policies of the Group and in a manner consistent with its audited financial statements for the year ended 31 December 2018.

Gross premiums written

RLP's new business premiums were £6.6 billion in 2016 and £1.2 billion in 2017, increasing to £13.2 billion in 2018. The Issuer achieved unaudited new business volumes of £0.7 billion for the half year ended 30 June 2019.

This result differs from the gross premiums stated in the table above (£6,877 million in 2016, £1,447 million in 2017 and £13,424 million in 2018) because the gross premiums written include regular premiums of £263 million in 2018 (FY 2017: £263 million; FY 2016: £267 million) generated on the in-force business written in prior years.

Investment return

The investment return comprises interest received on financial assets, interest payable on financial liabilities and the net gains and losses on financial assets and liabilities.

Interest received on financial assets net of interest payable on financial liabilities increased from £531 million in 2016 to £649 million in 2017 and further to £956 million in 2018, reflecting the continuing growth in the size of the business.

The net movement in the fair value of assets including realised gains represented a decrease of £816 million in 2018 (FY 2017: an increase of £124 million; FY 2016: an increase of £2,269 million). A large part of the decrease or increase in the fair value will be offset by a similar movement in the insurance liabilities.

Claims and change in insurance contract liabilities

Claims and change in insurance contract liabilities represents gross claims paid by RLP plus the change in RLP's gross insurance liabilities.

The gross claims paid by RLP increased from £1,384 million in 2016 to £1,479 million in 2017 and further to £1,876 million in 2018. The gross change in insurance contract liabilities resulted in an increase of £7,864 million in 2016, a decline of £330 million in 2017 and an increase of £10,694 million in 2018. The large changes in insurance contract liabilities in 2016 and 2018 arose primarily from writing new business.

Change in the reinsurers' share of insurance contract liabilities and reinsurance recoveries

Change in the reinsurers' share of insurance contract liabilities and reinsurance recoveries represents RLP's reinsurance recoveries plus the change in the value of RLP's reinsurance assets.

RLP's reinsurance recoveries increased during the period from 2016 to 2018, £593 million for the 2016 financial year, £736 million for the 2017 financial year and £1,275 million for the 2018 financial year. For the change in the value of RLP's reinsurance assets, during the full 2016 financial year an increase of £163 million, during the full 2017 financial year a decrease of £500 million and during the full 2018 financial year a decrease of £567 million was recorded.

Assets under management

Assets under management as at 31 December 2018 were £36.3 billion, representing an increase from £24.1 billion as at 31 December 2017 and £23.8 billion as at 31 December 2016. Such increase is largely a result of new business offset by interest rate movements and insurance liabilities unwinding. These figures are derived from the consolidated statement of financial position of RLP for the full financial years of 2016, 2017 and 2018, each adjusted for reinsurance, derivatives and collateralised financing, as shown in the table below.

Assets Under Management

(£m)	FY2016 (£m)	FY2017 (£m)	FY2018 (£m)
Total assets	39,724	38,266	50,214
less reinsurance assets	(437)	(168)	(43)
less payables and financial liabilities	(15,527)	(13,960)	(13,855)
Assets under management	23,760	24,138	36,316

The Group's unaudited assets under management increased to £37.7 billion by 30 June 2019.

4.2 Market consistent embedded value

RHUK's supplementary financial statements are prepared on a market consistent embedded value ("**MCEV**") basis for its 2016, 2017 and 2018 yearly financial reporting. The results have been prepared in accordance with the MCEV principles, which were published by the European Insurance Chief Financial Officer Forum in 2008 and amended in October 2009 and May 2016 ("**MCEV Principles**"). Consistent with the MCEV Principles revision in May 2016, explicit allowance for Solvency II has been made. Management considers that embedded value reporting provides investors with a useful measure of the future profit streams of the Issuer's in-force long-term business and is a valuable supplement to the statutory accounts.

MCEV is an estimate of the realistic value of the in-force business of a life insurer. It does not include any assessment of the value of future new business (such as the franchise value of RLP). The Group calculates MCEV using the MCEV Principles summarised below:

- **Principle 4, "free surplus"**: The free surplus is the market value of any assets allocated to, but not required to support, RLP's in-force business at the valuation date.

  Plus

- **Principle 5, "required capital"**: Required capital is the market value of assets, attributed to RLP's in-force business over and above that required to back liabilities for RLP's in-force business, whose distribution to the Shareholders is restricted. Subordinated debt is excluded from this calculation.

  Plus

- **Principle 6, "value of in-force covered business"**: The value of RLP's in-force covered business ("**VIF**") consists of the present value of future profits ("**PVFP**") (where profits are post taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities).

  Less

- **Principle 7, "financial options and guarantees"**: An allowance must be made in the MCEV calculation for the potential impact on future shareholder cash flows of all financial options and guarantees within RLP's in-force business. The allowance for the time value of financial options and guarantees must be based on stochastic techniques using methods and assumptions consistent with the underlying embedded value. This MCEV Principle is not material in the context of RLP's business.

Less

- **Principle 8**: **"frictional costs of required capital"**: An allowance should be made for the frictional costs of required capital for the RLP's in-force business.

  Less

- **Principle 9**: **"cost of residual non-hedgeable risks"**: An allowance should be made for the cost of non-hedgeable risks not already included in the calculation of the time value of options and guarantees or the PVFP. This allowance should include the impact of non-hedgeable non-financial risks and non-hedgeable financial risks. An appropriate method of determining the allowance for the cost of residual non-hedgeable risks should be applied and sufficient disclosures provided to enable a comparison to a cost of capital methodology.

4.2.1 MCEV as at 31 December 2016, 31 December 2017 and 31 December 2018

In accordance with the MCEV Principles summarised above, RLP's MCEV as at 31 December 2016, 31 December 2017 and 31 December 2018 was as follows:

Market Consistent Embedded Value

(£m)	FY2016 (£m)	FY2017 (£m)	FY2018 (£m)
Adjusted net worth	2,093	2,298	3,193
Present value of future profits	899	826	1,474
Cost of capital	(102)	(128)	(127)
Cost of non-hedgeable risks	(98)	(92)	(124)
Value of in-force business	699	606	1,223
Sub-debt	(358)	(703)	(1,000)
MCEV of RLP	2,434[14]	2,201[15]	3,416[16]

The unaudited MCEV of the Group as at 30 June 2019 was £3.7 billion.

4.3 Group consolidated capital

The amount of outstanding borrowings at 31 December 2018 include £100 million of subordinated floating rate perpetual callable loan notes, £250 million fixed rate subordinated loan notes, £300 million of floating rate subordinated loan notes and £350 million fixed rate subordinated loan notes.

The £100 million of subordinated floating rate perpetual callable loan notes which were issued to a holder with a participating interest in the Group were callable at par on 21 December 2017 and are callable every 6 months thereafter. They carry deferrable interest at sterling London inter-bank offered rate ("**LIBOR**") plus 425bps per annum. The notes qualify as Tier 2 capital for the purpose of the RLP and Group's regulatory capital requirements. The notes have been reclassified to subordinated loan notes from a participating interest following the recapitalisation on 18 December 2017. As of 31 December 2018, the notes have a carrying value of £100 million (31 December 2017: £100 million; 31 December

[14] The MCEV for the Group as at 31 December 2016 was £2,173 million.

[15] The MCEV for the Group as at 31 December 2017 was £2,301 million.

[16] The MCEV for the Group as at 31 December 2018 was £3,441 million.

2016: £100 million) and a fair value of £93 million (31 December 2017: £95 million; 31 December 2016: £100 million) and were issued by RLP.

The £250 million subordinated loan notes mature in 2025 with a fixed 8 per cent. coupon paid annually in arrear. The notes qualify as Tier 2 capital for the purpose of RLP and the Group's regulatory capital requirements. The notes were issued by RLP and initially recognised at fair value of £249 million being issue proceeds of £250 million less capitalised issue costs of £1 million. At 31 December 2018 the notes have a carrying value of £249 million (31 December 2017: £249 million; 31 December 2016: £249 million) which is calculated based on an amortised cost basis, and a fair value of £283 million (31 December 2017: £303 million; 31 December 2016: £258 million), as determined by traded levels. The notes were issued in the public debt markets.

The £300 million of floating rate subordinated loan notes which mature in 2028 with interest at LIBOR plus 595bps paid quarterly in arrear. The notes are callable at par on 19 September 2023 and every year thereafter. The notes qualify as Tier 2 capital for the purpose of RLP's and the Group's regulatory capital requirements. The notes were issued to a holder with a participating interest in the Group. The notes were issued and initially recognised at fair value of £298 million being issue proceeds of £300 million less capitalised issue costs of £2 million. At 31 December 2018 the notes have a carrying value of £298 million (31 December 2017: £298 million) and a fair value of £287 million (31 December 2017: £305 million).

On 5 September 2018, RLP issued £350 million subordinated rate perpetual callable loan notes with a fixed 6.875 per cent. coupon payable semi-annually in arrear through the public debt markets. The notes qualify as Restricted Tier 1 capital for the purpose of RLP and the Group's regulatory capital requirements. The notes were issued by RLP and initially recognised at fair value of £347 million being issue proceeds of £350 million less capitalised issue costs of £3 million. The notes are callable on or after 5 September 2028. If the notes are not repaid on that date, a fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the Issuer. The Issuer has the option to cancel the coupon payment which becomes mandatory upon breach or non-compliance with RLP's SCR, a breach of the MCR or where the Group has insufficient distributable reserves. The full principal amount of each note is irrevocably and automatically reduced to zero on a permanent basis if RLP determines at any time that: (i) eligible Own Fund items are less than or equal to 75 per cent. of the SCR; (ii) eligible Own Fund items are less than or equal to 100 per cent. of the MCR; or (iii) a breach of the SCR has occurred and has not been remedied within three months. Under IFRS the Restricted Tier 1 notes meet the definition of equity and are therefore recognised as such. The coupon payments are recognised directly in shareholders' equity (and outside the profit after tax result) upon payment. The coupon is treated as an allowable tax expense in the tax computation of the Issuer upon payment. At 31 December 2018 the notes have a carrying value of £347 million.

For the year ended 31 December 2018, an interest expense of £55 million (31 December 2017: £36 million; 31 December 2016: £30 million) was recognised in the consolidated statement of comprehensive income in respect of the Group's total borrowings.

In March 2017, RHUK signed a new £300 million revolving credit facility with a syndicate of third party banks. The facility can be drawn to provide support to RLP's solvency position, but would not impact the Group's solvency position. The facility has not been utilised.

Group Borrowings

(£m)	FY2016 (£m)	FY2017 (£m)	FY2018 (£m)
Third party syndicated loan	238	–	–
Affiliate subordinated loan	100	–	–
Subordinated loans from participating interest	–	398	398
Subordinated loan notes	249	249	249
Total borrowed	587	647	647

4.4 Cumulative expected surplus arising from the Group's in-force business

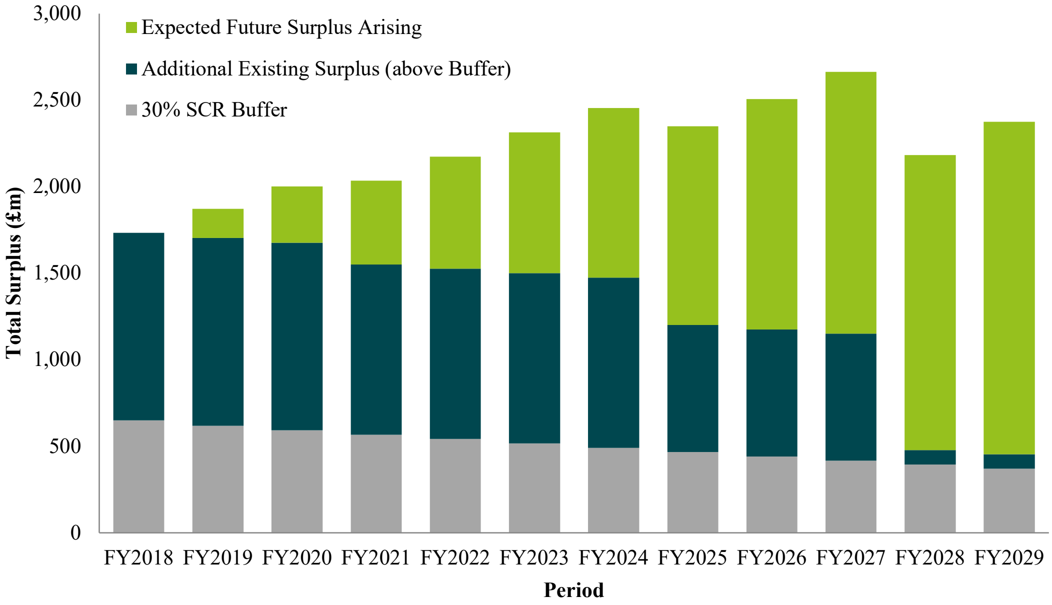
Management considers that the Group's approach to balance sheet management should result in stable projected cash flows from its in-force book if and to the extent that the best estimate is realised and any margins and capital requirement held under the Pillar 1 capital requirements unwind and are released, and absent any other factor which might or could have a negative impact on the Group's expected cash flows.

The diagram below illustrates the Group's projected surplus above 100 per cent. SCR from its in-force business until 31 December 2029 as at 31 December 2018, at which point the Group's cumulative surplus should be approximately £2.4 billion of capital of which £1.9 billion is surplus expected to arise by 2029, in addition to £0.4 billion SCR buffer and £0.1 billion remaining existing surplus if and to the extent that the best estimate is realised and any margins and capital requirement held under the Pillar 1 capital requirements unwind and are released, and absent any other factor which might have a negative impact on the Group's projected surplus. During this period, the Group is therefore estimated to be able return approximately £3.6 billion of cash and capital (undiscounted) to debt and equity holders, which excludes additional £0.4 billion of capital held in 2029 for a 30 per cent. SCR buffer.

The existing free surplus as at 31 December 2018 was £1.7 billion. The annual expected post-tax cash flow before interest from the Group's in-force book is expected to amount to approximately £240 million in 2019 and is expected to decrease to approximately £214 million over the following 10 years. Including expected interest payments lowers the expected cash flow number to approximately £169 million in 2019 and is unchanged with approximately £214 million in 2029.

As at 31 December 2018, the annual expected post-tax cash flow is expected to cover future annual interest payments by at least approximately 3.2 times until 2029, with no further interest payments expected to be outstanding after that period. As at 31 December 2018, the aggregate free surplus cash until and including 2029 is expected to cover outstanding debt and expected future interest payments by approximately 2.5 times (2.4 times in 2028 which is the minimum during the period), which implies repayment of all outstanding debt and servicing all expected future interest incurred.

Cumulative Expected Surplus Arising from the Group's In-force Business



The projections above are based on the current calculation of margins and capital requirement held under the Solvency II Pillar 1 capital requirements and do not take into account any changes to the Solvency II Pillar 1 capital requirements as a result of new business underwriting during 2019 or other changes during the half year ended on 30 June 2019. The projections assume (among other things) that:

(i) the surplus capital buffer is measured as surplus above 100 per cent.;

(ii) the debt granted by MassMutual to the Issuer, as detailed in the financial statements contained in this Information Memorandum, will be redeemed in 2022;

(iii) the publicly traded debt of the Issuer, as detailed in the financial statements contained in this Information Memorandum, will mature or be called and will be repaid in 2025 and 2028 respectively;

(iv) the debt granted by a participating interest to the Issuer, as detailed in the financial statements contained in this Information Memorandum, will mature and be repaid in 2028;

(v) no dividends are paid by the Issuer or the Group during this period; and

(vi) no new debt or other capital is issued or repaid by the Issuer.

Many factors could cause actual results to differ materially from those expected or implied by the projections, as by their nature the projections involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. Such projections may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. The projections are based on market conditions as at 31 December 2018. For more details see the section headed *"Important Information – Cautionary note regarding forward-looking statements"*.

4.5 In-force capital stresses

Management considers that the Issuer has a relatively low sensitivity to market and demographic stresses. The Issuer's in-force capital stresses are monitored on a daily basis in order to ensure that market risks are rebalanced daily.

The schedule below provides an analysis of reasonably possible movements in key assumptions that would have a material impact on liabilities (net of reinsurance) ("**net liabilities**"), PBT and IFRS equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate sensitivity where the impact of dynamic hedging is allowed for as interest rates change.

31 December 2018	**Change in assumptions**	**(Decrease)/ increase in net liabilities**	**Increase/ (decrease) on PBT**	**Impact on equity**
		(£m)	**(£m)**	**(£m)**
Annuitant mortality	+5% qx	(172)	171	139
Annuitant mortality	-5% qx	181	(179)	(145)
Interest rate	+100bps	(3,752)	26	21
Interest rate	-100bps	4,661	292	236
Inflation	+100bps	1,320	26	21
Inflation	-100bps	(1,256)	82	66
Credit default assumption[17]	+10bps	(320)	(206)	(167)
Credit default assumption	-10bps	329	209	170
Changes in property prices[18]	+10%	9	59	47
Changes in property prices	-10%	(15)	(84)	(68)
Expenses	+10%	95	(95)	(77)

The sensitivities shown above capture non-linearity effects, which may be significant following large market movements. The risk management strategy adopted can result in the Issuer being immunised to market movements in either direction.

Given the interest rates as at 31 December 2018, the -100bps interest rate sensitivity does not mean that interest rates are assumed to fall below zero (FY2017: assumed to fall below zero for four years). The credit default assumption sensitivity has been calculated assuming a change in the credit spreads on non risk free assets with no associated change in valuation rate of interest.

4.6 Solvency and capital position

The Issuer is authorised by the PRA and regulated by the PRA and the FCA. Under the Solvency II regime, the Group is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under its own economic capital models, Solvency II Pillar 2. The

[17] For 2018 the credit default assumption sensitivity excludes secured assets where the main risk is to underlying property prices.

[18] For assets excluded from the credit default sensitivity in 2018 a sensitivity is shown to a change in the property value of the underlying collateral. The liability impact reflects the second order impact on the credit default assumption of this change. For 2017 these assets are included within the credit default assumption sensitivity as the portfolio then had materially less property sensitivity and the default allowances used were less sensitive to property values.

Group also ensures that its insurance company subsidiary, RLP, is capitalised to the greater of the economics capital requirement and the regulatory Pillar 1 position.

In practice, it is the Pillar 1 requirement which is more onerous and in terms of management's policy for maintaining coverage. There is a formal target at the Group and the Issuer level, both aim to maintain a coverage of at least 130 per cent. of the regulatory minimum SCR. As at 31 December 2018, RLP had an SCR Coverage of 180 per cent. Further details of which are provided in the section headed "*Regulatory Overview*".

The solvency position of RLP for the year ended 31 December 2016, 31 December 2017 and 31 December 2018 is set out below:

RLP Solvency Position

£m (other than percentages)	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2018**
Tier 1 capital (£m)	2,526	2,180	3,237
Tier 2 capital (£m)	361	664	658
Own Funds available to meet SCR (£m)	2,887	2,844	3,895
SCR (£m)	1,603	1,743	2,163
Surplus above SCR (£m)	1,284	1,101	1,732
SCR coverage (%)	180	163	180
MCR (£m)	431	442	658
Own Funds available to meet MCR (£m)	2,612	2,268	3,368
MCR coverage (%)	605	513	512

Figures for the unaudited solvency position of RLP as at 30 June 2019 were as follows: Own Funds available to meet SCR were £4.07 billion, SCR was £2.31 billion, Own Funds available to meet MCR were £3.54 billion and MCR was £0.68 billion. SCR Coverage therefore was 176 per cent. and MCR Coverage was 521 per cent.

Figures for the unaudited solvency position of the Group as at 30 June 2019 were as follows: Own Funds available to meet SCR were £4.08 billion, SCR was £2.31 billion, Own Funds available to meet MCR were £3.55 billion and MCR was £0.68 billion. SCR Coverage therefore was 177 per cent. and MCR Coverage was 522 per cent.

4.7 Key sensitivities to RLP's solvency position

The risks to RLP's solvency position are described in "*Risk Factors*". The key sensitivities in relation to the RLP's solvency position are described in the Solvency and Financial Condition Report of RHUK and the Issuer for the year ended 31 December 2016 and 31 December 2017, which are incorporated by reference into this Information Memorandum.

The risk profile of the business is relatively unchanged since 31 December 2018 and, as a result, the risk sensitivities as at 30 June 2019 are broadly similar to those disclosed as at 31 December 2018.

5 Dividend Policy

The Group does not have a formal dividend policy. The Group and Issuer aim to manage SCR Coverage in the range of 130 per cent. to 150 per cent. Capital can be returned to shareholders as dividends or retained for future business growth, provided that SCR Coverage remains in the range of 130 per cent. to 150 per cent.

The issuance of £350 million Restricted Tier 1 notes, the deployment of the PACL Reinsurance Transaction and the ongoing capital strength of RLP meant that RLP was able to pay dividends of £500 million to the Group during 2018 whilst maintaining appropriate solvency coverage. This dividend allowed the Group to repay £500 million of bank debt during 2018. The capital strength of RLP at the end of 2017 meant that RLP was able to pay dividends of £370 million to the Group at the end of 2017 whilst maintaining appropriate solvency coverage. This dividend allowed the Group to repay £240 million of bank debt in early 2018.

6 Recent Developments

On 05 July 2019, RLP published a press release entitled "*Rothesay Life has delivered strong first half performance*" (the "**Trading Statement**"). The Trading Statement is also quoted below:

"**Rothesay Life has delivered strong first half performance**

Rothesay Life Plc today updates on its H1 2019 trading performance.

The focus of the first half of 2019 has been deployment of the assets received as part of the Prudential transaction and capitalising on the opportunities in the bulk annuity market.

We have now successfully deployed all of the assets received from the Prudential transaction in a manner consistent with our original underwriting and our long-term investment strategy. This has helped contribute to the Group's first half unaudited pre-tax IFRS profit of £403m on a consolidated basis.[19]

In the first half of 2019 we assisted four pension schemes to de-risk their liabilities, resulting in new business premiums of £0.7bn. The new business pipeline is very strong. Where we are successful in writing new business, we will remain patient in asset origination which may in turn impact short term IFRS profit performance ahead of anticipated longer term gains.

As at 30 June 2019, the Group's assets under management were £37.7bn and the market consistent embedded value of the Group had increased to £3.7bn.

The Group's solvency position remains robust with a Solvency Capital Requirement (SCR) coverage ratio of 176% at the level of the Group's operating company, Rothesay Life Plc, and 177% at Group level as at 30 June 2019 as shown in the table below:

	Group	**RLP**
Own Funds available to meet SCR	£4.08bn	£4.07bn
SCR	£2.31bn	£2.31bn
Surplus above SCR	£1.77bn	£1.76bn
SCR coverage (%)[20]	177%	176%
MCR	£0.68bn	£0.68bn

[19] References to the "Group" in this announcement mean Rothesay Holdco UK Limited and its subsidiaries and subsidiary undertakings. The profit figure has been calculated in accordance with IFRS accounting policies of the Group and in a manner consistent with its audited financial statements for the year ended 31 December 2018.

[20] We estimate that were we to recalculate transitional solvency relief as at 30 June 2019 then SCR coverage would improve by 4% at both levels.

Own Funds available to meet MCR	£3.55bn	£3.54bn
MCR coverage (%)	522%	521%

SCR coverage at Group level is higher than at the operating company level because of cash held at Group. The risk profile of the business is relatively unchanged since 31 December 2018 and, as a result, the risk sensitivities as at 30 June 2019 are broadly similar to those disclosed as at 31 December 2018.

As previously announced, Fitch Ratings has reaffirmed Rothesay Life Plc's Insurer Financial Strength Rating at 'A+' (Strong) and Long-Term Issuer Default Rating (IDR) at 'A'. Fitch has also affirmed the group's ultimate holding company, Rothesay Holdco UK Limited's (Rothesay) IDR at 'A'. The outlooks are stable. Fitch also assigned Rothesay Life Plc's publicly issued GBP250 million subordinated Tier 2 notes a 'BBB+' rating."

7 Board of Directors

7.1 Members of the boards of the Group and the Issuer

7.1.1 Naguib Kheraj

Naguib Kheraj is a Senior Advisor to the Aga Khan Development Network and serves on the Boards of various entities within the Network. Naguib is also Deputy Chairman of Standard Chartered, a member of the investment committee of Wellcome Trust and a member of the finance committee of the Oxford University Press. Naguib began his career at Salomon Brothers and went on to hold a number of senior positions at leading financial institutions. He served as Group Finance Director and Vice-Chairman and in various leadership positions at Barclays and was CEO of JP Morgan Cazenove.

Mr Kheraj is appointed as Chairman and Independent Non-Executive Director to the boards of RHUK and the Issuer. Mr Kheraj is also Chair of the Group's Remuneration Committee and Nomination Committee.

7.1.2 Antigone (Addy) Loudiadis

Addy Loudiadis is the founder and Chief Executive Officer of RLP. Prior to establishing the business in 2007, Addy was a partner of Goldman Sachs and served as the co-head of the Investment Banking Division in Europe. Before moving to Investment Banking, Addy was head of European Fixed Income Sales at Goldman Sachs, having joined in 1994.

Ms Loudiadis is appointed to the boards of RHUK and the Issuer. She also serves as Chair of the Senior Management Committee.

7.1.3 Thomas (Tom) Pearce

Tom Pearce is Managing Director and a co-founder of RLP, responsible for strategy and business development. Prior to the establishment of the Group in 2007, Tom was previously in the European Financing Group at Goldman Sachs responsible for UK Life insurance. Tom joined Goldman Sachs in 2000 in European Fixed Income.

Mr Pearce is appointed to the boards of RHUK and the Issuer.

7.1.4 Andrew Stoker

Andrew Stoker is the Chief Financial Officer of RLP following his appointment in 2014. At RLP, Andrew has responsibility for the finance, actuarial and HR functions. Andrew was previously a partner in Ernst & Young's risk and actuarial practice and prior to that was Chief Actuary at

Lucida plc. Andrew has also held roles at PricewaterhouseCoopers LLP ("**PwC**"), Tillinghast and Legal & General.

Mr Stoker is appointed to the board of RHUK and the Issuer. He also serves as Chair of the New Activities Committee and the Finance Committee.

7.1.5 Constant (Stan) Beckers

Stan Beckers retired from his role as Chief Executive Officer of NN Investment Partners B.V. in 2017, having previously been Co-Head of Blackrock Solutions at Blackrock Advisors (UK) Limited and, prior to that, had spent six years with Barclays Global Investors Ltd, most recently as Chief Investment Officer of Scientific Active Equity Europe. Stan started his career at BARRA (now MSCI BARRA) where, over a 20 year period, he established and managed its non-US operations. Stan was previously a Non-Executive Director of Robeco N.V. and a Non-Executive Director of Kas Bank N.V.

Mr Beckers is appointed to the boards of RHUK and the Issuer as an Independent Non-Executive Director. Mr Beckers is also Chair of the Group's Board Risk Committee.

7.1.6 Raymond (Ray) King

Ray King is currently a Non-Executive Director and audit chair of Saga plc and is now a Non-Executive Director of RLP, having stepped down as Chairman in December 2017. Previously he held Non-Executive Directorships at Infinis Energy plc and Friends Provident plc. He has also previously been a board member of the Financial Reporting Council, a panel member at the Competition and Markets Authority and a non-executive on the board at the ABI. Ray ended his executive career as Group CEO of Bupa, having previously been Finance Director. Earlier in his career he held senior management roles at Diageo/Guinness plc, Southern Water plc and ICI plc, having qualified as a chartered accountant with PwC.

Mr King is appointed to the boards of RHUK and the Issuer as an Independent Non-Executive Director.

7.1.7 Therese (Terry) Miller

Terry Miller is a Non-Executive Director and the Senior Independent Director of Galliford Try Plc, a Non-Executive Director of Goldman Sachs International Bank, a Non-Executive Director of Goldman Sachs International and a Director and Trustee of the Invictus Games Foundation. She was previously General Counsel of The London Organising Committee of the Olympic and Paralympic Games ("**LOCOG**") and a Non-Executive Director of the British Olympic Association. Prior to her LOCOG appointment, she was with Goldman Sachs for 17 years, most recently as International General Counsel.

Ms Miller is appointed to the boards of RHUK and the Issuer as an Independent Non-Executive Director. Ms Miller is also Chair of the Group's Customer and Conduct Committee.

7.1.8 Simon Morris

Simon Morris is the CEO of Boltons Place Capital Management, a private investment fund, and a Non-Executive Director of Goldman Sachs Bank USA. He was previously a partner at Goldman Sachs where he was Head of International Credit Trading and European Mortgage Trading. Simon served on Securities Division Executive Committee, Firmwide Risk Committee and was co-head of Goldman Sachs International Risk Committee. He retired from Goldman Sachs in 2017 after 17 years. Prior to Goldman Sachs, Simon was at JP Morgan in Credit Trading.

Mr Morris is appointed to the boards of RHUK and the Issuer as an Independent Non-Executive Director.

7.1.9 Charles Pickup

Charles Pickup was previously a partner in the Risk Consulting and Software division of Towers Watson (formerly Tillinghast) and acted as Actuarial Function Holder for Lucida plc, Countrywide and Blackrock. Prior to this Charles worked at Commercial Union and Prudential Bache Securities specialising in UK life insurance.

Mr Pickup is appointed to the boards of RHUK and the Issuer as an Independent Non-Executive Director.

7.1.10 William (Bill) Robertson

Bill Robinson was previously the Global Life Chief Risk Officer and Global Life Chief Actuary for Zurich Financial Services and also held various senior positions at Aegon. Prior to this, Bill was a partner at Hymans Robertson and Head of Actuarial at Scottish Amicable.

Mr Robertson is appointed to the boards of RHUK and the Issuer as an Independent Non-Executive Director. Mr Robertson is also Chair of the Group's Audit Committee.

7.1.11 Syed Qasim (Qasim) Abbas

Qasim Abbas is a Senior Managing Director with Blackstone's Tactical Opportunities Group. Since joining Blackstone, Qasim has primarily focused on financial institutions across Europe. Prior to joining Blackstone in 2012, Qasim was a portfolio manager with Trafalgar Asset Managers where he was responsible for real estate and mortgage debt instruments.

Mr Abbas is appointed to the boards of RHUK and the Issuer by the Blackstone Shareholder as a Non-Executive Director.

7.1.12 Melvin Timothy (Tim) Corbett

Tim Corbett is Executive Vice President and Chief Investment Officer of Massachusetts Mutual Life Insurance Company. Tim is responsible for MassMutual's overall investment strategy and has oversight of the company's Investment Account. Prior to joining MassMutual in May 2011, Tim had been Chief Investment Officer and head of Pension Fund Management with the State of Connecticut Treasurer's Officer since 2009.

Mr Corbett is appointed to the board of RHUK and the Issuer by the MassMutual Shareholder as a Non-Executive Director.

7.1.13 Robin Jarratt

Robin Jarratt is Head of the Global Private Credit group at GIC. Robin has responsibility for all private credit investment by the firm in the US, Europe and Asia. Robin is a member of GIC PE's Management and Investment Committees.

Mr Jarratt is appointed to the boards of RHUK and the Issuer by the GIC Shareholder as a Non-Executive Director.

7.2 Committees of the Group and its subsidiaries

7.2.1 Board committees

(a) Audit Committee

The audit committee is a sub-committee of the board of RHUK (the "**Audit Committee**"). The role of the Audit Committee is to assist the boards of directors of the Group and each of its subsidiaries in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and each company's process for monitoring compliance with laws and regulations and the business principles. The Audit Committee is authorised by, and reports to, the board of directors of RHUK.

The Audit Committee has an Independent Non-Executive Director as its Chair. The Audit Committee reports to the board of RHUK.

(b) Board Risk Committee

The board risk committee is a sub-committee of the board of the Issuer (the "**Board Risk Committee**"), authorised by the board with the purpose of assisting the board in providing leadership, direction and oversight of the Issuer's risk appetite, tolerance, risk strategy, risk governance and risk management framework and of the risk aspects of major investments and corporate transactions. Its primary function is the on-going monitoring and control of all financial and insurance risks associated with the activities of the Group, within the parameters set by the Board and as set out in the prevailing Risk and Investment Policies of the Group. The Board Risk Committee is also responsible for the oversight of the Working Level Risk Committee and the risk management function, and for reviewing the ongoing effectiveness of the system for risk monitoring. The Board Risk Committee may reserve, within the parameters set by the board and by the Risk and Investment Policies of the Group, the right to approve certain transactions which due to their nature or size require such express approval of the Board Risk Committee before they can be entered into.

The Board Risk Committee has Independent Non-Executive Director as its Chair. The Board Risk Committee reports to the board of the Issuer.

(c) Nomination Committee

The nomination committee is a sub-committee of the board of RHUK (the "**Nomination Committee**"). The Nomination Committee is responsible for monitoring the balance of skills, knowledge, experience and diversity on the board and the Issuer board, recommending board, board committee and senior management appointments to the board of RHUK and the board of the Issuer, as appropriate, and monitoring succession plans for the executive directors and the development plans of senior management within the Group.

The Chair of the Nomination Committee is the Chairman. The Nomination Committee reports to the board of RHUK.

(d) Remuneration Committee

The remuneration committee is a sub-committee of the board of RHUK (the "**Remuneration Committee**"). The Remuneration Committee is responsible for overseeing the design and development of remuneration policy and remuneration practices, their implementation and operation, and making recommendations to the RHUK board and the Issuer board regarding the remuneration policy of the Group. Within the context of the policy, the Remuneration Committee is specifically responsible for making recommendations for the remuneration packages of the non-executive directors, executive directors, individuals whose remuneration is regulated under applicable regulation (including, but not limited to, the Solvency II regulation) and other senior managers of the

Group. The Remuneration Committee is further responsible for monitoring the level and structure of remuneration for the employees of the wider Group.

The Chair of the Remuneration Committee is the Chairman. The Remuneration Committee reports to the board of RHUK.

7.2.2 Hybrid Committees

(a) Customer and Conduct Committee

The customer and conduct committee is authorised by, and is a sub-committee of, the Audit Committee (the "**Customer and Conduct Committee**"). The Customer and Conduct Committee assists the Group to ensure that it consistently delivers fair outcomes to customers, clients and counterparties[21] and that senior management are taking responsibility for ensuring that the Group and staff at all levels deliver outcomes appropriate to their business through establishing an appropriate culture.

The Customer and Conduct Committee has an Independent Non-Executive Director as its Chair. The Customer and Conduct Committee reports to the Audit Committee.

7.2.3 Selected Executive Committees

(a) Senior Management Committee

The senior management committee (the "**Senior Management Committee**") has been delegated by the board of the Issuer the powers of day to day oversight and management of the business and affairs of the Group, subject to any specific matters reserved for consideration and approval by either of the boards of RHUK or the Issuer or any committees of such boards.

The Chair of the Senior Management Committee is the Chief Executive Officer and she reports to the board of the Issuer.

(b) Working Level Risk Committee

The working level risk committee is a sub-committee of the Board Risk Committee (the "**Working Level Risk Committee**"). The Working Level Risk Committee is responsible for the on-going monitoring and control of all risks associated with the activities of the Group. The Working Level Risk Committee establishes, among other things, the limits for financial risks, insurance risks and operational risks, reviews stress test and scenario analysis results, and establishes risk policies and procedures.[22] The Board Risk Committee

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[21] Clients and counterparties include but are not limited to: trustees of pension schemes; institutional investors; third party administrators, brokers and intermediaries, and suppliers. It is recognised that the duty of care that the Group owes and should abide by when considering whether fair outcomes have been delivered may differ between customers and clients on the one hand and professional counterparties on the other

[22] For the purpose of the Working Level Risk Committee, financial risks include, but are not limited to:

- Credit risks
- Interest rate and inflation risks
- Counterparty default risks, including those of reinsurance counterparties
- Liquidity risks
- Currency risks
- Investment and reinvestment risks
- Concentration risks
- Diversification risks

Insurance risks include, but are not limited to:

- Pricing and underwriting risks
- Longevity and mortality risks and

has delegated such responsibilities to the Working Level Risk Committee and the Working Level Risk Committee will promptly update the Board Risk Committee on any changes to the risk limits.

The Chair of the Working Level Risk Committee is the Chief Risk Officer. The Working Level Risk Committee reports to the Board Risk Committee.

8 Conflicts of Interest

The directors of the Group may, from time to time, hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Directors have a statutory duty to avoid conflicts of interest with the entities within the Group, and, in particular, the Issuer. The articles of association of each of the entities of the Group allow its directors to authorise conflicts of interest. The boards of the entities within the Group have adopted policies and effective procedures to manage and, where appropriate, approve conflicts or potential conflicts of interest. Under these procedures, directors are required to declare all directorships of companies which are not part of the Group, along with other appointments which could result in conflicts or could give rise to a potential conflict. The Nomination Committee, or the board of the relevant entity of the Group, where appropriate, evaluates and approves each such situation individually.

The following directors have been appointed to the boards of the relevant Group entities as representatives of the Shareholders:

- Qasim Abbas, shareholder director of RHUK and the Issuer (appointed by the Blackstone Shareholder);
- Robin Jarratt, shareholder director of RHUK and the Issuer (appointed by the GIC Shareholder); and
- Timothy Corbett, shareholder director of RHUK and the Issuer (appointed by the MassMutual Shareholder).

From time to time, circumstances may arise in which the duties of these individuals as directors of the relevant Group entities may conflict with their interests as the representatives of Shareholders.

The Chairman and the following executive directors are also shareholders through their holding of certain classes of non-voting shares in RHUK:

- Naguib Kheraj, Chairman and Independent Non-Executive Director of RHUK and the Issuer;
- Antigone Loudiadis, director of RHUK and the Issuer;
- Thomas Pearce, director of RHUK and the Issuer; and
- Andrew Stoker, director of RHUK and the Issuer.

From time to time, circumstances may arise where the duties of each of these individuals as directors of the relevant Group entities may conflict with their interests as holders of certain classes of non-voting shares in RHUK.

There are no other potential conflicts of interest between the duties of each of the directors to the Issuer and his/her private interests or other duties. The Group has appropriate procedures in place to identify and manage conflicts of interest should they arise.

Operational risks include all booking, administrative and other operational risks but exclude compliance and conduct risk.

9 Other Items

9.1 Pension schemes

The Group does not sponsor any defined benefit pension schemes and as such has no liabilities. Employees participate in a defined contribution scheme to which the Group provides a monthly contribution for eligible employees.

REGULATORY OVERVIEW

1 Introduction

The Group and its subsidiaries are subject to extensive laws and regulations, in particular, the UK regulatory framework established under FSMA. Such regulatory framework is enforced by a number of different governmental authorities and non-governmental agencies and other regulators. The Issuer is authorised by the PRA, and regulated by the PRA (in relation to prudential and organisational requirements) and the FCA (in relation to conduct of business requirements).

As a company carrying on an insurance business in the UK, the Group (and, in particular, the Issuer) is subject to detailed regulatory requirements, including requirements to be authorised to carry on an insurance business and to comply with comprehensive prudential and conduct of business rules.

This section provides an overview of the key features of the regulatory regime governing insurance business in the UK as it applies to the Group and, in particular, the Issuer.

2 Regulation by the Bank of England, the PRA and the FCA

The framework regulating the UK financial system separates prudential regulation (carried out by the PRA) and conduct of business regulation (carried out by the FCA). The Bank of England is responsible for ensuring and protecting the stability of the UK financial system and supervising financial market infrastructures.

The PRA, the Bank of England acting through its Prudential Regulation Committee, is responsible for the safety and soundness of the financial services sector through the micro-prudential regulation of insurers, banks, building societies, credit unions and major investment firms. The PRA started with two primary statutory objectives introduced by the amendments to FSMA under the Financial Services Act 2012 (the "**FS Act**"), as follows:

- a general objective to promote the safety and soundness of the firms it regulates, focusing on the adverse effects that they can have on the stability of the UK financial system; and
- an objective specific to insurance firms, to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders.

In 2014, an additional secondary objective to promote effective competition in the markets for services provided by PRA-authorised firms was introduced. This further objective is complementary to, rather than the equivalent of, the FCA's primary competitive objective.

The FCA is the independent conduct of business regulator and, in broad terms, is responsible for, among other things, regulating standards of conduct in the retail and wholesale markets. The FCA has the strategic objective of ensuring that the retail and wholesale markets function effectively, as well as operational objectives focused on market integrity, consumer protection and effective competition. The FCA regulates the conduct of every authorised insurer in the UK.

The Bank of England has specific responsibilities in relation to financial stability, including:

- ensuring the stability of the financial system of the UK;
- the oversight of financial market infrastructures, in particular, inter-bank payment systems; and
- maintaining a broad overview of the financial system through its monetary stability role.

The Financial Policy Committee ("**FPC**"), a committee of the Bank of England's board of directors, is responsible for monitoring and responding to systemic risks to the UK financial system. The FPC considers prudential regulation issues across the UK financial system on a macro-level, in contrast to the PRA's micro-prudential role. The FPC may direct the PRA and the FCA to take action to address systemic risks.

As an authorised insurance company, the Issuer is required to comply with the provisions of FSMA, as well as the rules made by the PRA and the FCA under FSMA. These rules are set out in the PRA's rulebook ("**PRA Rulebook**") and the FCA's handbook ("**FCA Handbook**"), respectively (see – "*The PRA Rulebook and the FCA Handbook*" below).

The PRA and the FCA have extensive powers to supervise and intervene in the affairs of the insurers that they are responsible for regulating. For example, the PRA and the FCA can supervise and/or intervene should they consider it appropriate in order to protect policyholders against a risk that an insurer may be unable to meet its liabilities as they fall due, that the threshold conditions (as discussed in more detail below) may cease to be met, that the insurer has failed to comply with obligations under the relevant legislation or rules, that the insurer has furnished them with misleading or inaccurate information or that there has been substantial departure from any proposal or forecast submitted to the relevant regulator.

The PRA Rulebook, the FCA Handbook and secondary legislation made under FSMA are used to implement the requirements contained in a number of EU directives relating to financial services and to insurance businesses in particular.

The PRA and the FCA have continued the more direct style of regulation adopted by the FSA following the onset of the financial crisis in 2008. This strategy, combined with (i) an outcome-focused regulatory approach and (ii) a more proactive approach to enforcement and more punitive approach to penalties for infringements, means that authorised firms continue to face increased supervisory scrutiny, resulting in increased internal compliance costs and supervision fees.

In addition, the FS Act provides for additional specific powers for the PRA and the FCA, including:

- the ability of the FCA to intervene in order to ban financial products from sale or to prevent an insurer from selling a widely accepted product if it determines such firm's sale process to be unacceptable; and
- the ability of the FCA or the PRA to direct an unregulated UK holding company of an authorised firm (for example, RHUK) to take particular action, or refrain from taking a particular action, and to censure or fine such company if it does not so comply.

3 The PRA Rulebook and the FCA Handbook

The FCA Handbook and the PRA Rulebook set out the rules, guidance and other provisions made by the FCA and the PRA, respectively, under powers given to them under FSMA.

The FCA's approach to regulation and the standards it requires insurers to maintain are set out in the FCA Handbook. In addition, the PRA Rulebook sets out the PRA's rules in respect of which insurance companies are expected to comply, which focus on prudential matters.

The PRA Rulebook and the FCA Handbook comprise a number of sourcebooks containing regulatory obligations which are binding on firms or manuals containing provisions relevant to the regulatory relationship which the regulators have with firms, such as in relation to supervision and enforcement, which set out the rules which apply to dual-regulated insurers. They include the following which are, amongst other sourcebooks and manuals, relevant to the Group:

- the Fundamental Rules and Principles for Businesses (each as defined below);

- the Senior Management Arrangements, systems and Controls (“**SYSC**”);
- the conduct of business rules contained in the “Conduct of Business Sourcebook” (“**COBS**”);
- the “Insurance: Conduct of Business Sourcebook” (“**ICOBS**”); and
- the “Mortgages and Home Finance: Conduct of Business Sourcebook” (“**MCOB**”).

The PRA Rulebook and the FCA Handbook provide the core ongoing requirements for PRA-authorised insurers, as discussed in further detail below.

3.1 The Principles for Businesses

Insurance companies that are authorised by the PRA are subject to certain overarching principles issued by the PRA (the “**Fundamental Rules**”) and the FCA (the “**Principles for Business**”). These principles are intended to ensure fairness and integrity in the provision of financial services in the UK and contain the fundamental obligations of insurers. The Fundamental Rules also focus on the effectiveness of the risk management frameworks of insurance companies that are authorised by the PRA. The emphasis and reliance on these principles by the PRA and the FCA has marked a move to more “judgment-based” regulation in recent years.

3.2 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 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 in the section 8 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.

3.3 The Senior Managers & Certification Regime

The Senior Managers & Certification Regime (“**SMCR**”) came into effect for insurers from 10 December 2018.

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 in the United Kingdom. Firms must ensure that every activity, business area and management function has a Senior Manager with overall responsibility for it. Appointment of an individual performing a SMF continues to require prior 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 (for example, staff who give investment advice or administer benchmarks) ("**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 for their roles on an on-going basis. Insurers must 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 receives one certificate which covers FCA functions and any PRA functions; and

- conduct rules, which are high level requirements that apply to persons within the scope of the senior manages' regime and the certification regime. The FCA's Conduct Rules apply to most employees of relevant firms based in the United Kingdom or those who deal with customers in the United Kingdom. The conduct rules also apply to Certified Persons. In addition, the SMCR confers the FCA and/or the PRA with the power to make conduct rules that are not limited to senior managers and employees. This enables the FCA and/or the PRA to apply the conduct rules directly to directors of firms who are not SMFs and are considered to be outside the scope of the senior managers' regime.

3.4 Conduct of business requirements

Through COBS and ICOBS, the FCA regulates the distribution and sale of insurance products. COBS applies where such insurance products have an investment element, such as pension policies, and ICOBS applies to non-investment insurance products. Accordingly, differing requirements apply to the sale of general and pure protection insurance contracts as compared to long-term insurance contracts that function as savings and investment vehicles.

The scope and range of the obligations imposed on an authorised company under COBS and ICOBS varies according to the scope of the insurer's business and the nature of its clients. Many of the provisions only apply to insurance companies that deal directly with retail customers or to transactions with retail customers or provide packaged products. Such insurance companies 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 insurer provides, and fee and remuneration arrangements.

COBS and ICOBS are supplemented by the Principles for Business, including the principle that insurers should provide information to consumers which is clear, fair and not misleading, as well as to treat customers fairly. Such principles are actionable 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 insurers by the FCA and compensation orders made against insurers by the Financial Ombudsman Service ("**FOS**") for breaches of conduct of COBS and ICOBS. An example of such action is the extensive regulatory review and subsequent fines levied and compensation orders made in relation to the sales of payment protection insurance products noted above.

In general, COBS and ICOBS govern the sale of new policies. However, they also include rules applicable in the course of administration of in-force policies by the Group relating to:

- information to be provided to existing policyholders;

- cancellation rights;
- the handling of claims;
- reporting to clients;
- the provision of certain protections in relation to clients' assets;
- treating policyholders fairly; and
- pensions transfer and the open market option.

These may apply regardless of whether or not an insurer is actively selling its products.

COBS and ICOBS implement the Insurance Mediation Directive ("**IMD**") in the UK, further details of which are provided in section 10 below.

Through MCOB, the FCA regulates the distribution and sale of home finance activities. Of particular relevance to the Issuer, it sets specific standards for the advising and selling of equity release mortgages, as well as rules and guidance relating to related product disclosure.

3.5 Treating customers fairly

There is a clear focus in the UK on the fair treatment of customers, in particular, on the manner in which insurance companies sell and administer insurance policies and other products. Principle 6 of the FCA's Principles for Business requires a firm to pay due regard to the interests of its customers and to treat them fairly. The emphasis of this initiative is to achieve fair outcomes for customers.

The FCA has wide-ranging powers to take enforcement action against insurers and individuals (for example, against senior management if it considers that they have failed in relation to their responsibilities) for breach of the TCF principle, including where it finds that an insurance company's systems and controls or actions cause actual or potential consumer detriment.

4 Enforcement and Supervision

4.1 Enforcement

The PRA and the FCA have powers to take a range of investigative, disciplinary or enforcement actions, including the ability to sanction companies and individuals. Most notably, enforcement action may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The PRA and the FCA also have the power to undertake a range of investigative actions. In addition, the PRA (and, where relevant, the FCA) can grant, vary, revoke or cancel the permissions or authorisations of an authorised insurance company that has not engaged in regulated activities for 12 months or that fails to meet the threshold conditions (see *"– Permission to Carry on Insurance Business in the UK*") below. They may also impose product intervention rules and require the maintenance of adequate financial resources.

In addition to the above, the FCA has the power to impose sanctions on an authorised person who is found to have committed market abuse and it has the power to institute criminal proceedings for offences under:

- FSMA or any statutory instruments made under it (with the exception of certain provisions for which the PRA is the relevant regulator);

- the insider dealing provisions of the Criminal Justice Act 1993; and
- certain provisions contained in anti-money laundering and counter-terrorist financing legislation.

The PRA and the FCA may also make enquiries of the insurance companies that they regulate regarding compliance with applicable regulations.

4.2 Supervision

The PRA has wide powers to supervise, and intervene in, the affairs of an insurance company under FSMA. It can, for instance, require insurance companies to provide particular information or documents to it, require the production of a report by a "skilled person" appointed by the PRA or formally investigate an insurer.

The nature and extent of the PRA's supervisory relationship with an insurer depends on how much of a risk the PRA considers it could pose to its statutory objectives. The PRA assigns insurers to one of five "impact categories", based on its overall assessment of an insurer's systemic importance, its proximity to failure, the context in which the insurer operates and a bespoke selection of activities which PRA supervisors deploy as they judge necessary.

The FCA's supervisory approach is built around three pillars, which can broadly be described as follows:

- **Pillar 1:** involves "proactive firm supervision" (also referred to as the "firm systematic framework") which is designed to be a forward-looking assessment of an insurer's conduct risk;
- **Pillar 2:** involves the FCA's event-driven work where it reacts to what is actually happening at the insurer; and
- **Pillar 3:** relates to products and issues, where the FCA carries out thematic reviews and market studies across a particular sector or sectors, which are becoming more common.

5 Permission to Carry on Insurance Business in the UK

Pursuant to section 19 of FSMA, it is unlawful to effect or carry out contracts of insurance in the UK, or carry on the business of an insurer, without permission to do so from the PRA under Part 4A of FSMA (a "**Part 4A Permission**"). The FCA must also consent to the granting of the permission.

In order to grant a Part 4A Permission, the PRA (with input from the FCA, where appropriate) must determine that the applicant meets the requirements of FSMA, including certain "threshold conditions". The threshold conditions are the minimum conditions which must be satisfied, both at the time of authorisation and on an ongoing basis, in order for an insurer to gain and continue to have permission to carry on the relevant regulated activities under FSMA. Dual-regulated insurers (like the Issuer) must meet both the PRA's and the FCA's threshold conditions. These relate to matters including the applicant's legal form, whether the applicant has adequate resources (both financial and non-financial) to carry on its business and whether, having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently), the applicant is fit and proper to conduct the relevant regulated activities.

The Part 4A Permission contains a description of the activities that an authorised insurer is permitted to carry on. When granting a Part 4A Permission, the PRA may impose such limitations and requirements as it considers appropriate.

Once authorised, in addition to continuing to meet the threshold conditions, insurers must comply with the Principles for Businesses, as well as other rules in the PRA Rulebook and the FCA Handbook, as discussed above.

6 Change of Control of Insurance Companies

The FCA and PRA regulate the acquisition and increase (or decrease) of control of authorised firms. Under section 178 of FSMA, any person who intends to acquire or increase its "control" over a UK authorised insurance company must notify the PRA of its decision and receive approval from the PRA before becoming a "controller" or increasing its interest in such insurance company to or above certain thresholds.

The PRA must, within 60 working days of the date on which it acknowledges receipt of a notification (provided it has received all the necessary information), either approve, or notify the applicant that it does not approve, the relevant acquisition of or increase in control. In considering whether or not to grant or withhold its approval to the change of control, the PRA 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. Additionally, in reaching its decision, the PRA is required to consult with the FCA and the FCA may require the PRA to reject the application or impose conditions on the approval of the application in certain circumstances.

The PRA must also be notified when the transaction which results in the change of control takes place. No prior approval for reducing control below one of the thresholds referred to below is required, although (pursuant to section 191D of FSMA) notification must still be given to the PRA of the relevant transaction prior to effecting the disposition.

A "controller" is any natural or legal person or such persons "acting in concert" who has or have taken a decision to acquire or increase, directly or indirectly, a holding above a certain level in a UK authorised insurance company. Broadly, "control" over a UK authorised insurer will occur if the acquirer (together with other persons acting in concert with it):

- holds 10 per cent. or more of the shares or voting rights in that company or in its parent undertaking; or
- is able to exercise significant influence over the management of an insurer by virtue of the acquirer's shares or voting power in the company or its parent undertaking.

Increases in control of an insurance company require the prior approval of the PRA where they reach thresholds of 20 per cent., 30 per cent. and 50 per cent. or more of the shares or voting power in the insurer or its parent undertaking, or where the acquirer becomes the parent undertaking of the insurance company.

Breach of the requirements to notify the PRA of a decision to acquire or increase (or decrease) control or to obtain approval before effecting the relevant transaction in question is a criminal offence attracting fines, and other offences exist for breaches of the provisions of the change of control regime described above.

7 Transfers of Insurance Business

Any transfer of UK insurance business (as defined under FSMA) must be effected in accordance with Part VII of FSMA and relevant secondary legislation, which requires a scheme of transfer to be prepared and approved by the High Court of England and Wales (the "**Court**"). A Part VII transfer enables insurers and reinsurers to transfer all or part of their book of business to another approved insurer by operation of law without the need for individual policyholder consent, although policyholders have the right to object to the proposed scheme at the Court hearing. The proposed scheme may also allow for the transfer of assets and other contracts related to the transferring business so as to give proper effect to the transfer.

Amongst other things, a report of an independent expert is required on the terms of the scheme, which would consider amongst other things, whether the proposed transfer would have a material adverse effect on policyholders including in relation to their security of benefits and benefit expectation. The regulators also have an important role in a transfer under Part VII of FSMA, including in relation to the approval of the appointment of the independent expert and review of the independent expert's report, and in advising the Court whether a transfer should be approved.

8 Solvency II

8.1 Overview

Solvency II has applied since 1 January 2016.

Solvency II replaced the previous EU regulatory framework for the prudential supervision of insurance and reinsurance companies and updated, among other things, the EU life, non-life, reinsurance and insurance group directives. Solvency II applied more consistent risk-sensitive standards to capital requirements, bringing European insurance regulations closely in line with banking and securities regulation with a view to avoiding regulatory arbitrage, aligning regulatory capital with economic capital and enhancing public disclosure and transparency.

The main aim of the Solvency II 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. Solvency II adopts a three-pillar approach to prudential regulation, which can broadly be described as follows:

- **Pillar 1:** quantitative requirements covering the amount of capital an insurer should hold;
- **Pillar 2:** qualitative requirements in relation to undertakings such as risk management and supervisory activities; and
- **Pillar 3:** enhanced public and supervisory reporting, disclosure and transparency requirements.

More specifically, Solvency II contains rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of a minimum capital requirement ("**MCR**") and a higher and more risk-sensitive solvency capital requirement ("**Solvency Capital Requirement**" or "**SCR**");
- what capital (that is, own funds) is eligible (and in what proportions) to cover technical provisions, the MCR and the Solvency Capital Requirement;
- what capital or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- on what basis an insurer calculates its Solvency Capital Requirement;
- governance requirements, including risk management processes;
- requirements covering (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process, and (ii) matters to be published and made publicly available in a "solvency and financial condition report" ("**SFCR**");
- rules providing for the Solvency Capital Requirement to be supplemented by a "capital add-on" in appropriate cases, the add-on to be imposed by the PRA;
- 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.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Accordingly, the assessment of risks and capital requirements under Solvency II are intended to be aligned more closely with economic capital methodologies and include the option for insurance companies to calculate their own solvency requirements by using (with the approval of the PRA) an internal economic capital model. The process of obtaining approval to use an internal (or partial internal) model is a rigorous one involving a full review of the insurer's governance arrangements and the PRA being satisfied that the internal economic capital model is fully used within the insurer's business. The Group has received approval from the PRA for the use of a partial internal economic capital model for calculating its Solvency Capital Requirements in relation to credit and counterparty risk and continues to use the Standard Formula for other risks. Work has begun on development of a full internal model which would also cover the risk modules which are currently calculated by the Group using the standard formula. The PRA may impose capital add-ons if it considers that the resultant capital requirement under Standard Formula or any internal (or partial internal) model does not reflect the risk exposure of the insurer and the Group currently has a small capital add on. This predominantly relates to the risk that a higher proportion of pensioners than assumed have dependants and the inflation risk associated with inflation-linked liabilities.

Firms with illiquid liabilities such as annuity business can (with the approval of the PRA) discount these illiquid liabilities using the risk-free rate plus what is known as the "'matching adjustment"'. The matching adjustment is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities. The Issuer has received the approval of the PRA to apply the matching adjustment. The Group applies the matching adjustment in calculating the BEL for almost all of its single premium insurance business. The remaining liabilities are discounted at the risk-free rate.

The technical implementation of Solvency II resulted in a significant increase in the overall capital requirements of the Issuer. However, these increases were mitigated to an extent by the introduction of transitional provisions on technical provisions, included in the Solvency II Directive, which are designed to ensure a smooth transition to the new regime. On 2 December 2015, the PRA confirmed that it had approved an application by the Issuer to apply 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 provisions will be phased out over a 16 year period from 2016.

An application can be made to re-calculate the amount of transitional provisions that can be taken if the risk profile of the Group changes materially. For example, the Group made such an application as at 31 December 2018 at the time its partial internal model was approved.

Solvency II also requires insurers to disclose a considerably greater level of qualitative and quantitative information as compared to the previous rules, both to their own supervisor through "regular supervisory reporting" and to the market through the publication of the SFCR. This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if insurers are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of rating agencies and the capital markets to insurers' performance.

In addition to these capital requirements and procedures, the Solvency II regime also imposes various requirements in relation to insurers' business operations, including the organisation of internal processes, the roles and responsibilities among certain key officers and external reporting obligations, as well as to the presentation of financial information.

8.2 Solvency II "level" standards

Solvency II is supplemented by means of both "level 2" measures, including delegated acts and binding technical standards, and "level 3" guidance, including non-binding supervisory standards, recommendations and guidelines. "Level 2" rules, which take the form of a delegated regulation and supplement the Solvency II Directive in more detail, were adopted by the European Commission on 10 October 2014 and entered into force on 18 January 2015. The European Commission proposed amendments to these rules as part of its initiative to build a Capital Markets Union (as described in "– *Capital Markets Action Plan and Capital Markets Union*" below).

In the UK, several consultation papers have been published by the FCA and the PRA in relation to the transposition of the Solvency II Directive into UK law. On 20 March 2015, the PRA published a policy statement containing a set of final rules to implement the Solvency II Directive. The Solvency II regulations were also laid before the UK Parliament on 9 March 2015, making corresponding amendments to primary legislation. The final UK rules generally replicate the "level 2" rules other than in certain instances, such as the need to provide for with-profit funds in the context of long-term insurance funds no longer being recognised under Solvency II.

Various "level 3" guidelines have also been published. National supervisors are required to comply with the guidelines or explain why they do not do so.

In December 2018, the PRA published Policy Statement 31/18 and Supervisory Statement 3/17 which are intended to ensure that, where firms have invested in equity release mortgages and have approval to use the matching adjustment or the transitional measure on technical provisions, their technical provisions are not understated and that their Solvency II and ICAS balance sheets include appropriate allowance for the risks to which they are (directly or indirectly) exposed. In April 2019, the PRA published a follow up consultation paper (CP/7/19) in which it sets out further proposed detail on its expectations in respect of firms investing in equity release mortgage portfolios, particularly about the way in which the effective value test (used to determine whether firms are properly allowing for the risks associated with equity release mortgages) may change over time. Responses to the consultation are requested by 3 July 2019. The proposed implementation date for the proposals is 31 December 2019.

9 Markets in Financial Instruments Directive

Although the Markets in Financial Instruments Directive does not apply to insurance businesses, it has driven changes to the conduct of business rules, including those that apply to insurance businesses.

The original Markets in Financial Instruments Directive 2004/39/EC ("**MiFID**") and its predecessor legislation, the Investment Services Directive, set out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and regulated markets. In particular, MiFID and its implementing measures made specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross-border investment services.

In May 2014, MiFID was replaced by (i) a substantially revised Markets in Financial Instruments Directive; (ii) the Markets in Financial Instruments Regulation (EU) No 600/2014; and (iii) secondary legislation in the form of Delegated Acts made thereunder (together, "**MiFID II**"). MiFID II came into force on 3 January 2018 and represents a significant overhaul of the EU regulatory regime for financial services.

MiFID II sets out detailed and specific requirements in relation to organisational, trading and conduct of business matters for investment firms and trading venues. MiFID II is more wide ranging than MiFID and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

10 Insurance Distribution Directive

The IMD established an EU regime for intermediaries involved in the promotion, sale and administration of certain insurance products. In 2007 (two years after the transposition deadline), it became apparent that there was possibly a need to amend the IMD. As a result, the Second Insurance Mediation Directive ("**IMD2**") was published by the European Commission 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 the proposed directive aims to ensure a level playing field between all participants involved in the sale of insurance products, and to strengthen policyholder protection. 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 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 will continue to be 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.

11 The Insurance Act 2015

The Insurance Act 2015 (the "**Insurance Act**") received Royal Assent on 12 February 2015 and the majority of its provisions entered into force on 12 August 2016. The Insurance Act is designed to update the statutory framework in line with best practice in the market in which the Group operates.

The Insurance 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:

- the introduction of 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.

12 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 the SIMR or SMCR (as applicable) 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.

13 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.

14 Consumer Complaints and Compensation

The Financial Services Compensation Scheme ("**FSCS**"), established under FSMA, seeks to protect policyholders where a UK authorised insurer is unable or unlikely to be able to meet its financial obligations to policyholders. The FSCS provides compensation to certain categories of customer who suffer loss as a consequence of the failure by an insurer to meet its liabilities arising from claims made in connection with regulated activities. The FSCS can pay compensation if an insurer is unable, or likely to be unable, to pay claims against it. Participating insurers and other financial services firms are responsible for contributing to compensation schemes in respect of insurers and other financial services firms that are unable to meet their obligations to policyholders. In this respect, the FSCS is funded by way of levies imposed on all of its participating insurers, including the Issuer.

Insurance companies, along with other authorised entities and certain other unregulated businesses, fall within the jurisdiction of the FOS, which is a body established under FSMA. The FOS is a free and independent service for individuals and small business customers designed to resolve disputes where the customer is not satisfied with the response received from an authorised insurer. Authorised insurers are required to have adequate complaints-handling procedures in place but, where these are exhausted and a complaint or dispute has not been resolved, the FOS provides for dispute resolution in respect of certain categories of customer complaints brought by individuals and small business customers. This service covers most financial products and services in (or from) the UK. Insurers that are covered by the FOS are required to pay levies and case fees, which provide the funding for the FOS. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve matters on the basis of what is fair and reasonable. In this regard, the FOS is not bound by its own precedent; however, the decisions made by the FOS are binding on insurers.

In addition, where larger groups or matters of public policy are concerned, the PRA and/or the FCA may intervene directly to provide redress to consumers.

15 Data Protection

On 25 May 2018, the General Data Protection Regulation 2016/679 ("**GDPR**") came into force and replaced the previous regime set out in the first Data Protection Directive (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 GDPR contains measures that seek to harmonise data protection procedures and enforcement across the EU. It is directly binding on data controllers (as well as introduced certain direct obligations on data processors) in all EU member states without the need for implementation by the member states. Importantly, the GDPR introduced more substantial penalties for data breaches, as well as greater enforcement power by data protection authorities.

In the UK, the Data Protection Act 2018 (the "**DPA**") exercised on the UK's part the limited discretion accorded to member states under the GDPR, and dealt with data processing issues not covered by the GDPR.

The Group is required to comply with the GDPR and the DPA, and any breach could give rise to criminal or civil liability and other enforcement action by the Information Commissioner's Office.

16 Competition Regulation

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 impose remedies on any feature, or combination of features, of a market in the UK. In addition, since 1 April 2015, the FCA has also had competition powers under the Enterprise Act 2002 and the Competition Act 1998 relating to the financial services sector, which it holds concurrently with the CMA.

17 European Regulatory Environment

The regulatory framework applicable to insurers in the UK is derived to a certain extent from EU directives. These directives are implemented into national legislation within each EU Member State. The UK has implemented all such directives. EU Member States may not pass implementing legislation that fails to meet the minimum standards, but may impose legal requirements that go beyond the minimum standards, unless the directive is a "maximum harmonisation" directive. These directives are regularly reviewed at EU level and could be subject to change. The Group monitors the progress of these initiatives and assesses the likely impact on its business. Of particular relevance to the Group's (and, in particular, the Issuer'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 relevant insurance regulator (a "**Home State Regulator**") in an EEA Member State where the insurer is incorporated or has its head office is valid for the entire EEA (the "**Passporting Right**"). The Home State Regulator determines the procedures for, and terms of, exercising the Passporting Right depending upon, among other things, whether the insurer intends to establish a branch in another EEA Member State or provide cross-border insurance services in another EEA Member State (a "**Host State**"). Generally, the prudential regulation of an insurance company is a matter for the Home State Regulator, whereas conduct of business regulation and marketing requirements will be subject to the jurisdiction of the regulator in the Host State. As described in *"Risk Factors – Legal and regulatory risks relating to the Group's business (including those relating to standards of accounting and taxation) – A change of law or regulation or changes in the interpretation or operation of existing legislation, regulation or policies may adversely affect the Group's business, results of operations and financial position"*, the Group makes 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.

The European system for financial supervision involves a decentralised, multi-layered system of micro- and macro-prudential authorities comprising the European Systemic Risk Board ("**ESRB**"), the three European Supervisory Authorities ("**ESAs**") (namely the European Banking Authority, EIOPA and the European Securities and Markets Authority), the Joint Committee of the ESAs and the national competent or supervisory authorities of each member state.

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 EU 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 ESAs and EU Member States (including national competent authorities) and with the identification and prioritisation of systemic risks.

The ESAs have powers to draft technical standards that are binding across Europe and in certain circumstances to mediate between, or to intervene in the practice of, individual national regulatory authorities. While national supervisory authorities remain in charge of supervising individual financial institutions, the objective of the ESAs is to improve the functioning of the internal market by ensuring appropriate, efficient and harmonised European regulation and supervision.

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, 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 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 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).

TAXATION

*The following is a general description of certain United Kingdom ("**UK**") tax considerations relating to the Notes, as well as a description of FATCA. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. It relates to the position of persons who are the absolute beneficial owners of the Notes and who hold the Notes as an investment (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) and some aspects do not apply to certain classes of taxpayer (such as Noteholders who are connected or associated with the Issuer for relevant tax purposes). The statements in this section do not constitute tax or legal advice. Prospective Noteholders who may be subject to tax in a jurisdiction other than the UK or who may be unsure as to their tax position should seek their own professional advice. This summary is based upon the law as in effect on the date of this Information Memorandum and is subject to any change in law that may take effect after such date.*

Investors should also note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

United Kingdom

General

The comments in this part are of a general nature and are not intended to be exhaustive. They are based on current UK tax law as applied in England and Wales and published HM Revenue & Customs practice (there can be no assurance that HM Revenue & Customs will apply its published practice). They assume that there will be no substitutions of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). They relate only to the UK withholding tax treatment of payments of interest (as that term is understood for UK tax purposes) in respect of Notes. They do not deal with any other UK taxation implications of acquiring, holding or disposing of 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 subject to tax in a jurisdiction other than the UK or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding 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. Euronext Dublin is a recognised stock exchange for these purposes. The Notes will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on Euronext Dublin.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of UK income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) 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).

FATCA Withholding

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 is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) 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 advisers 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.

SUBSCRIPTION AND SALE

The Sole Lead Manager has entered into a Subscription Agreement dated 5 July 2019 (the "**Subscription Agreement**") in respect of the Notes. Pursuant to the Subscription Agreement, subject to the satisfaction of certain conditions, the Sole Lead Manager will subscribe for the Notes at 99.117 per cent. of their principal amount less commissions. In addition, the Issuer has agreed to reimburse the Sole Lead Manager for certain of its expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Sole Lead Manager to terminate it in certain circumstances prior to payment being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act, and the Notes may not be offered or sold within the U.S. 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 meaning given to them by Regulation S.

The Sole Lead Manager has represented and agreed that, it will not offer or sell the Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of any identifiable tranche of which such Notes are a part, within the U.S. 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 during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the U.S. or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the U.S. by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

UK

The Sole Lead Manager has represented, warranted and agreed that:

(A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; 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 any Notes in, from or otherwise involving the UK.

Prohibition on Marketing and Sales of Notes to Retail Investors

The Sole 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. For the purposes of this provision, the expression retail investor means a person who is one (or more) of the following:

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

(b) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Canada

The Sole Lead Manager has represented, warranted and agreed that the Notes may be sold only to purchasers in the Canadian provinces purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Information Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

General

No action has been taken by the Issuer or the Sole Lead Manager that would, or is intended to, permit a public offer of the Notes or possession or distribution of this Information Memorandum or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Sole Lead Manager undertakes that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance in all material respects with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

General

1. It is expected that listing of the Notes on the Official List of Euronext Dublin and admission of the Notes to trading on the GEM will be granted on or around 12 July 2019, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by Euronext Dublin in accordance with its rules. Transactions will normally be effected for delivery on the second working day after the day of the transaction. The expenses in connection with the admission to trading of the Notes are expected to amount to €4,540.

2. The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom, in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Board passed on 3 July 2019.

3. 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 202740006. The International Securities Identification Number (ISIN) for the Notes is XS2027400063.

4. The yield of the Notes is 3.519 per cent., on an annual basis. The yield is calculated as at the Issue Date on the basis of the Issue Price and the interest rate of 3.375 per cent. per annum. It is not an indication of future yield.

5. 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.

6. The legal entity identifier of the Issuer is MFQO711J5UPYBWXSPG12.

7. There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

8. The Issuer was incorporated as Hackremco (No. 2460) Limited on 26 February 2007. It was renamed as First Premium Company Limited on 14 March 2007 and Rothesay Life Limited on 14 May 2007. It was re-registered as Rothesay Life Plc on 24 March 2016.

9. The Issuer does not intend to provide any post-issuance information in relation to the Notes.

10. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the GEM.

No Significant Change and No Material Adverse Change

11. Since 31 December 2018 there has been no significant change in the financial or trading position of the Issuer and its subsidiaries.

12. Since 31 December 2018, there has been no material adverse change in the prospects of the Issuer and its subsidiaries.

Documents available for Inspection

13. For so long as the Notes are listed on the Official List of Euronext Dublin and admitted to trading on the GEM, electronic copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:

(a) the Agency Agreement and Trust Deed (which includes the form of the Global Certificate);

(b) the Memorandum and Articles of Association of the Issuer;

(c) the RHUK 2018 Annual Report and Accounts, the RHUK 2017 Annual Report and Accounts and the RHUK 2016 Annual Report and Accounts;

(d) the Issuer 2018 Annual Report and Accounts, the Issuer 2017 Annual Report and Accounts and the Issuer 2016 Annual Report and Accounts;

(e) Solvency and Financial Condition Report 2018 for the year ended 31 December 2018;

(f) Solvency and Financial Condition Report 2017 for the year ended 31 December 2017;

(g) Solvency and Financial Condition Report 2016 for the year ended 31 December 2016; and

(h) a copy of this Information Memorandum together with any supplement to this Information Memorandum or further Information Memorandum in relation to the Notes.

14. This Information Memorandum will also be available on the website of Euronext Dublin at www.ise.ie.

Auditor

15. PwC, Registered Auditors with the Institute of Chartered Accountants in England and Wales, have audited, and rendered an unqualified audit report on, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and International Financial Reporting Standards as adopted by the European Union, the financial statements of the Issuer and the Group for the years ended 31 December 2016, 2017 and 2018. PwC has no material interest in the Issuer or the Group.

16. The audit report in respect of the Issuer for the financial years ended 2017 and 2018 stated that the report, including the opinion, was prepared for and only for the Issuer's members as a body in accordance with sections 495, 496 and 497 of the Companies Act 2006 and for no other purpose and that the auditors did and do not, in giving the audit opinion, accept or assume responsibility for any other purpose or to any other person to whom the report was shown or into whose hands the report came except where expressly agreed with the auditor's prior consent in writing.

Litigation

17. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the 12 month period preceding the date of this Information Memorandum which may have, or have had in the recent past significant effects on the financial position or profitability of the Issuer.

The Sole Lead Manager's transactions with the Issuer

The Sole Lead Manager and its 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 their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Sole Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. The Sole Lead Manager or its affiliates may have a lending relationship with the Issuer and routinely hedge its credit exposure to the Issuer consistent with its customary risk management policies. Typically, the Sole Lead Manager and its 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 short positions could adversely affect future trading prices of the Notes. The Sole Lead Manager and its 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.

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