PROSPECTUS DATED 10 SEPTEMBER 2018

Rothesay Life plc

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

£350,000,000 Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes

Issue Price: 100.00 per cent.

The £350,000,000 Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes (the "**Notes**") will be issued by Rothesay Life plc (the "**Issuer**" or "**RLP**") on or about 12 September 2018 (the "**Issue Date**"). The Notes will constitute direct, unsecured and subordinated obligations of the Issuer. The terms and conditions of the Notes (the "**Conditions**") are set out more fully in "*Terms and Conditions of the Notes*".

The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 12 September 2028 (the "**First Call Date**") at a fixed rate of 6.875 per cent. per annum and thereafter at a fixed rate of interest which will be reset on the First Call Date and on each fifth anniversary of the First Call Date thereafter (each, a "**Reset Date**" as provided in the Conditions). Interest will be payable on the Notes semi-annually in arrear on 12 March and 12 September (each, an "**Interest Payment Date**") in each year commencing on 12 March 2019, subject to cancellation as provided below and as further described in the Conditions.

The Issuer may elect at any time to cancel (in whole or in part) any payment of interest otherwise scheduled to be paid on an Interest Payment Date and shall, save as otherwise permitted pursuant to the Conditions, cancel in full an interest payment upon the occurrence of a Mandatory Interest Cancellation Event (as defined in the Conditions) with respect to that interest payment. Any interest accrued in respect of an Interest Payment Date which falls on or after the date on which the Trigger Event (as defined in the Conditions) occurs shall also be cancelled. The cancellation of any interest payment shall not constitute a default for any purpose on the part of the Issuer. Any interest payment (or part thereof) which is cancelled in accordance with the Conditions shall not become due and payable in any circumstances. Subject as provided in the Conditions, all payments in respect of or arising from the Notes will be conditional upon the Issuer being solvent (as defined in the Conditions) at the time of payment and immediately thereafter.

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 will be perpetual securities with no fixed redemption date. The Issuer shall only have the right to redeem or purchase the Notes in accordance with the Conditions. Holders of the Notes ("Noteholders") will have no right to require the Issuer to redeem or purchase the Notes at any time.

UPON THE OCCURRENCE OF A TRIGGER EVENT EACH NOTE WILL BE PERMANENTLY AND AUTOMATICALLY WRITTEN DOWN TO ZERO.

The Prospectus has been approved by the Central Bank of Ireland as competent authority under EU Directive 2003/71/EC as amended (including by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU or which are to be offered to the public in any Member State of the European Economic Area (the "**EEA**").

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 of Euronext Dublin (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). This Prospectus constitutes a Prospectus for the purposes of article 5.4 of the Prospectus Directive. References in this Prospectus to Notes being 'listed' (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2014/65/EU, as amended ("**MiFID II**") of the European Parliament and of the Council on markets in financial instruments.

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 Prospectus, in particular the "Risk Factors" set out on pages 1 to 32.

The Notes will be issued in registered form in principal amounts of £200,000 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 Prospectus for further information.

Global Coordinator and Sole Bookrunner

Morgan Stanley

Joint Lead Managers

Barclays **Lloyds Bank Corporate Markets** **NatWest Markets**

The Issuer accepts responsibility for the information contained in this Prospectus. 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 Prospectus 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 Prospectus. 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 Prospectus 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 Prospectus 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 each of Morgan Stanley & Co. International plc (the "**Global Coordinator and Sole Bookrunner**") and Barclays Bank PLC, Lloyds Bank Corporate Markets plc and NatWest Markets Plc (and their respective affiliates) (the "**Joint Lead Managers**" and together with the Global Coordinator and Sole Bookrunner, the "**Managers**"). Neither the delivery of this Prospectus 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 Prospectus 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 Prospectus 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 Managers nor Citicorp Trustee Company Limited (the "**Trustee**") accept any responsibility for the contents of this Prospectus or for any other statement made or purported to be made by the Trustee or a Manager or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Trustee and each 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 Prospectus or any such statement. Neither this Prospectus 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 Managers that any recipient of this Prospectus 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 Prospectus 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 Managers nor the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Managers or the Trustee.

Restrictions on marketing and sales

Prohibition on marketing and sales of Notes to retail investors

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities with features similar to the Notes to retail investors. In particular, in

June 2015, the FCA published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the "**PI Instrument**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products ("**PRIIPs**") became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors in the Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein) including the Regulations.

Each of the Managers is required to comply with some or all of the Regulations.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest therein) from the Issuer and/or any Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Managers that:

1. it is not a retail client (as defined in MiFID II);

2. whether or not it is subject to the Regulations, it will not:

   (i) sell or offer the Notes (or any beneficial interest therein) to retail clients (as defined in MiFID II); or

   (ii) communicate (including the distribution of this Prospectus, in preliminary or final form) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as defined in MiFID II); and

   (iii) in selling or offering the Notes or making or approving communications relating to the Notes, each prospective investor may not rely on the limited exemptions set out in the PI Instrument.

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (and any beneficial interest therein), including (without limitation) the Regulations (as applicable) and any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interest therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

(i) the identified target market for the Notes (for the purpose of the product governance obligations in MiFID II) is eligible counterparties and professional clients;

(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and

(iii) no key information document under PRIIPs has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor may be unlawful under PRIIPs.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interest therein) from the Issuer and/or any of the Managers,

the foregoing representations, warranties, agreements and undertakings will be given by and be binding on both the agent and its underlying client(s).

Prohibition on marketing and sales of Notes to 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. 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 the Directive 2002/92/EC (as amended), 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 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.

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 Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers 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 Prospectus, 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 Prospectus. Any representation to the contrary is a criminal offence in the United States.

General restrictions on marketing and sales

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

Stabilisation

In connection with the issue of the Notes, the Manager(s) (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)**") (or any person acting on behalf of any Stabilising Manager(s)), 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 relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

IMPORTANT INFORMATION

Cautionary note regarding forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "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 Prospectus 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 Prospectus. In addition, even if the Group's results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements 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 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 Prospectus 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 Prospectus, 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 Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus.

Presentation of financial information

Unless otherwise indicated, financial information for the Issuer and the Group in this Prospectus and the information incorporated by reference into this Prospectus 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 year ended on 31 December 2015, 31 December 2016 and 31 December 2017, and on an unaudited basis for the half year ended on 30 June 2018.

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

The financial information presented in a number of tables in this Prospectus 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 Prospectus 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 Prospectus 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 Prospectus 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**"). 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.

Currencies

In this Prospectus and the information incorporated by reference into this Prospectus, 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, and 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).

Currency exchange rate information

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

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

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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 Prospectus 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 2017, such measures had the effect of hedging approximately 82 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.

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 dependents) 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 195,000 individual annuity policies from other insurance companies and has over 85,000 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 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.

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 to manage 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. 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 The Prudential Assurance Company Limited ("**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 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 ending 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) 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 now the largest specialist annuity insurer 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 2017 and the first half of 2018, 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 and to trading on the Main Securities Market.

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 and to trading on the Main Securities Market.

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 is currently consulting on the appropriate capital treatment of equity release mortgages (consultation paper CP13/18 "Solvency II: equity release mortgages"). Given the minimal level of exposure of the Group to equity release mortgages 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. In particular, 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.

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 applying to the PRA to use a partial internal model to calculate the SCR in relation to credit and counterparty risk. Management currently expects the model to lead to a reduction in the size of the total SCR but there is no guarantee that the application will be approved or that it will be approved without modification. The Group has also committed to developing a full internal model which may, if approved, lead to a further change in the SCR.

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 no formal target at the Group level, however, the Issuer aims 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 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

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 2021 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's obligations under the Notes are subordinated

The Issuer's obligations under the Notes will constitute direct, unsecured and deeply 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) will be subordinated to the claims of Senior Creditors (as defined in the Conditions) in that if at any time prior to a Write Down Date an Issuer Winding-Up occurs, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the holder of such Note if, throughout such winding-up or administration, such Noteholder were the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") having an equal right to a return of assets in the winding-up or administration to, and so ranking pari passu with, the holders of the most senior class or classes of issued preference shares (if any) in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up or administration were an amount equal to the principal amount of the relevant Note and any accrued but unpaid interest thereon (other than any interest which has been cancelled pursuant to these Conditions) together with any damages awarded for breach of any obligations in respect of such Note, whether or not the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable (and, in the case of an administration, on the assumption that

shareholders were entitled to claim and recover in respect of their shares to the same degree as in a winding-up or liquidation).

Furthermore, by acceptance of the Notes, subject to applicable law, each Noteholder will be deemed to have waived any right of set-off or counterclaim that such Noteholder might otherwise have against the Issuer in respect of or arising under the Notes or the Trust Deed.

Accordingly, if the Issuer becomes subject to insolvency proceedings and has obligations to creditors that rank senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In the case of an insolvency of the Issuer, this may have a material adverse effect on the ability of Noteholders to recover amounts due under the Notes.

Although the Notes may potentially pay a higher rate of interest (subject always to the Issuer's right and, in certain circumstances, obligation to cancel interest payments under the Conditions) than comparable notes which are not subordinated, there is a significant risk that an investor in the Notes will lose all or some of its investment should the Issuer become insolvent.

In addition, investors should be aware that, upon the occurrence of a Trigger Event, the full principal amount of each Note shall be reduced to zero on a permanent basis and the Notes shall be cancelled. Therefore, there is a risk that Noteholders will lose the entire amount of their investment, regardless of whether the Issuer has sufficient assets available to settle what would have been the claims of Noteholders or of securities subordinated to the same or greater extent as the Notes, in winding-up proceedings or otherwise. See also "*Risks relating to the structure of the Notes - The principal amount of the Notes may be written off*".

The principal amount of the Notes may be written off

The Notes are being issued for capital adequacy-related regulatory purposes with the intention and purpose of being eligible as restricted tier 1 capital of the Issuer and the Insurance Group under Solvency II. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions.

One of these relates to the ability of the liability represented by the Notes to be permanently written-down to zero upon a Trigger Event occurring. A Trigger Event will occur if the Issuer determines at any time that (i) the amount of Own Fund Items eligible to cover the Solvency Capital Requirement is equal to or less than 75 per cent. of the Solvency Capital Requirement, (ii) the amount of Own Fund Items eligible to cover the Minimum Capital Requirement is equal to or less than the Minimum Capital Requirement or (iii) a breach of the Solvency Capital Requirement has occurred and such breach has not been remedied within a period of three months from the date on which the breach was first observed.

Under the terms of the Notes, if at any time a Trigger Event occurs, all accrued and unpaid interest will be cancelled irrevocably and the entire principal amount of the Notes will be written down to zero on a permanent basis and cancelled. In such circumstances, the Noteholders will have no rights against the Issuer with respect to repayment of the principal amount of the Notes or any part thereof, the payment of any interest for any period or any other amounts arising under or in connection with the Notes and/or the Trust Deed, whether in an Issuer Winding-Up or otherwise, and there will be no reinstatement (in whole or in part) of the principal amount of the Notes at any time. Accordingly, if a Trigger Event occurs, holders of the Notes will lose their entire investment in the Notes.

The Automatic Write Down to zero may occur even if ordinary shares of the Issuer remain outstanding, and irrespective of whether the Issuer has sufficient assets available to settle the claims of the Noteholders of the Notes or other securities subordinated to the same or greater extent as the Notes, in winding-up proceedings or otherwise. As a result, Noteholders may have no claim for principal in the event of an Issuer Winding-Up, even though other securities that rank equally in priority may continue to have such a claim and the Issuer may have sufficient assets to satisfy the claims of Noteholders of other subordinated debt of the Issuer.

Any actual or perceived increased likelihood of an Automatic Write Down occurring, including any deterioration in the solvency ratios of the Issuer, may adversely affect the market value of the Notes and could result in increased volatility and/or reduced liquidity in the market (if any) for the Notes.

The occurrence of the Trigger Event may depend on factors outside of the Issuer's control

A Trigger Event shall occur if the Issuer determines at any time that (i) the amount of Own Fund Items eligible to cover the Solvency Capital Requirement is equal to or less than 75 per cent. of the Solvency Capital Requirement, (ii) the amount of Own Fund Items eligible to cover the Minimum Capital Requirement is equal to or less than the Minimum Capital Requirement or (iii) a breach of the Solvency Capital Requirement has occurred and such breach has not been remedied within a period of three months from the date on which the breach was first observed.

The occurrence of a Trigger Event and, therefore, Automatic Write Down is to some extent unpredictable and depends on a number of factors, some of which may be outside of the Issuer's control, including actions that the Issuer is required to take at the direction of the PRA and regulatory changes. Accordingly, the trading behaviour of the Notes may not necessarily follow the trading behaviour of other types of subordinated securities, including the Issuer's other subordinated debt securities. Any indication or perceived indication that the Issuer or the Group may be at risk of failing to meet its Solvency Capital Requirement or Minimum Capital Requirement may have an adverse effect on the market price and liquidity of the Notes. Therefore, investors may not be able to sell their Notes easily (if at all) or at prices that will provide them with a yield comparable to other types of subordinated securities, including the Issuer's other subordinated debt securities.

Investors will not be able to monitor whether or not the Issuer will meet its Solvency Capital Requirement or Minimum Capital Requirement on a continuous basis and it may therefore not be foreseeable when a Trigger Event may occur or whether interest payments must be cancelled.

Changes to Solvency II may increase the risk of the occurrence of a Trigger Event, cancellation of interest payments, suspension of any redemption of the Notes or the occurrence of a Capital Disqualification Event

Solvency II requirements adopted in the United Kingdom, whether as a result of further changes to Solvency II or changes to the way in which the PRA interprets and applies these requirements to the United Kingdom insurance industry, may change. Any such changes, either individually and/or in aggregate, may lead to further unexpected requirements in relation to the calculation of the Issuer's or the Insurance Group's Solvency Capital Requirement and Minimum Capital Requirement, and such changes may make the Issuer's or the Insurance Group's regulatory capital requirements more onerous. Such changes that may occur in the application of Solvency II in the United Kingdom subsequent to the date of this Prospectus and/or any subsequent changes to such rules and other variables may individually and/or in aggregate negatively affect the calculation of the Issuer's or the Insurance Group's Solvency Capital Requirement and Minimum Capital Requirement and thus increase the risk of cancellation of interest payments, the suspension of any redemption of the Notes or a Trigger Event occurring, which will lead to an Automatic Write Down, as a result of which a Noteholder could lose all or part of the value of its investment in the Notes. Conversely, such changes may increase the risk of the occurrence of a Capital Disqualification Event (and increase the risk of redemption of the Notes by the Issuer).

Other capital instruments issued by the Issuer may not absorb losses at the same time, or to the same extent as the Notes

The terms and conditions of other regulatory capital instruments issued from time to time by the Issuer or any of its subsidiaries may vary and accordingly such instruments may not convert into equity or be written-down at the same time, or to the same extent, as the Notes, or at all. Further, regulatory capital instruments issued by a member of the Group with terms that require such instruments to be converted into equity and/or written-

down when a solvency or capital measure falls below a certain threshold may have different capital or solvency measures for triggering a conversion or write-down to those set out in the definition of Trigger Event or may be determined with respect to a group or sub-group of entities that is different from the Group, with the effect that they may not be converted into equity and/or written down on the occurrence of a Trigger Event. Therefore, the Notes may be subject to a greater degree of loss absorption than would otherwise have been the case had such other instruments been written down or converted at the same time as or prior to the Notes.

Restricted remedy for non-payment when due

The sole remedy against the Issuer available to the Trustee (acting on behalf of the Noteholders) 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 and payable in respect of the Notes will be the institution of proceedings for an Issuer Winding-Up and/or proving in any winding-up of the Issuer and/or claiming in the liquidation or administration of the Issuer. Any cancellation or non-payment of interest shall not constitute a default or event of default on the part of the Issuer for any purpose.

Notes may be traded with accrued interest which may subsequently be subject to cancellation

The Notes may trade, and/or the prices for the Notes may appear, in trading systems with accrued interest. Purchasers of Notes in the secondary market may pay a price which reflects such accrued interest on purchase of the Notes.

If an interest payment is cancelled (in whole or in part) as described above, a purchaser of Notes in the secondary market will not be entitled to the accrued interest (or part thereof) reflected in the purchase price of the Notes.

The Notes have no scheduled maturity and Noteholders only have a limited ability to exit their investment in the Notes

The Notes are perpetual securities and have no fixed maturity date or fixed redemption date. Although the Issuer may, under certain circumstances described in Condition 8 (*Redemption, Substitution, Variation and Purchase*), redeem or purchase the Notes, the Issuer is under no obligation to do so and Noteholders have no right to call for the Issuer to exercise any right it may have to redeem or purchase the Notes.

Therefore, Noteholders do not have the ability to exit their investment, except (i) in the event of the Issuer exercising its right to redeem or purchase the Notes in accordance with the Conditions, (ii) by selling to other market participants their Notes, (iii) where the Trustee institutes proceedings for the winding-up of the Issuer where the Issuer has exercised its right to redeem the Notes but fails to make payment in respect of such redemption when due, in which limited circumstances the Noteholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior and more senior subordinated creditors or (iv) upon a winding-up, liquidation or administration of the Issuer, in which limited circumstances the Noteholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior and more senior subordinated creditors. The proceeds, if any, realised by of the actions described in (iii) and (iv) above may be substantially less than the principal amount of the Notes or amount of the investor's investment in the Notes. See also "*Risks relating to the market generally - The secondary market generally*".

In addition, the Conditions set out certain Redemption and Purchase Conditions, including in relation to the Solvency Capital Requirement and the Minimum Capital Requirement being met immediately prior to, and immediately following, the redemption or purchase of the Notes. If the Redemption and Purchase Conditions are not met, the Issuer may not redeem or purchase any Notes and the redemption or purchase of the Notes shall instead be suspended, as provided in the Conditions.

Payments by the Issuer are conditional upon the Issuer being solvent

Other than where an Issuer Winding-Up has occurred or is occurring, all payments under or arising from (including any damages for breach of any obligations under) the Notes shall be conditional upon the Issuer being solvent at the time for payment by the Issuer and no amount shall be due and payable by the Issuer in respect of or arising from the Notes except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For these purposes, the Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities. Any payment of interest that would have been due and payable but for the inability to comply with the Solvency Condition shall be cancelled in full pursuant to Condition 5(b) (*Mandatory Cancellation of Interest*).

Interest Payments on the Notes are discretionary

Interest payments on the Notes are discretionary and the Issuer may cancel interest payments, in whole or in part, at any time. Cancelled interest payments shall not be due and shall not accumulate or be payable at any time thereafter and investors shall have no rights thereto interest on the Notes will be due and payable only at the sole and absolute discretion of the Issuer and is subject to Condition 3(d) (*Solvency Condition*), Condition 5(b) (*Mandatory Cancellation of Interest*) and Condition 6 (*Automatic Write Down*). The Issuer may at any time elect to cancel any interest payment, in whole or in part, which would otherwise be due and payable on any Interest Payment Date. At the time of publication of this Prospectus, it is the intention of the Directors to take into account the relative hierarchy of its ordinary shares and the (more senior) Notes whenever exercising its discretion to declare dividends on the former or to cancel interest on the latter. However, the Directors may depart from this policy at any time in their sole discretion.

Any interest payment (or relevant part thereof) which is cancelled shall not accumulate and shall not become due and payable at any time thereafter. In the event of such cancellation, Noteholders will have no rights in respect of the interest payment (or relevant part thereof) which is cancelled. In addition, cancellation or non-payment of interest in accordance with the Conditions shall not constitute a default or event of default on the part of the Issuer for any purpose.

Any actual or perceived increased likelihood of cancellation of any interest payment may affect the market value of an investment in the Notes.

In addition to the Issuer's right to cancel interest payments, in whole or in part, at any time, the Conditions require that interest payments must be cancelled under certain circumstances. Cancelled interest payments shall not be due and shall not accumulate or be payable at any time thereafter and investors shall have no rights thereto

The Issuer must cancel any interest payment on the Notes in full pursuant to Condition 5(b) (*Mandatory Cancellation of Interest*) in the event that, *inter alia*, the Issuer cannot make the payment (including, if applicable, any Additional Amounts) in compliance with the Solvency Condition, the Solvency Capital Requirement or the Minimum Capital Requirement, or where the interest payment would, together with any Additional Amounts payable with respect thereto, exceed the amount of the Issuer's Distributable Items (as defined in the Conditions) as at the time for payment, or if required to cancel any interest payment by the PRA or under the Relevant Rules (as defined in the Conditions).

The Issuer's Distributable Items as at 31 December 2017 are further described in *"Description of the Issuer and the Group – Dividend Policy"*.

Any interest payment which is cancelled shall not accumulate and shall not become due and payable at any time thereafter. In the event of such cancellation, Noteholders will have no rights in respect of the interest payment which is cancelled. In addition, cancellation or non-payment of interest in accordance with the Conditions shall not constitute a default or event of default on the part of the Issuer for any purpose.

Any actual or perceived increased likelihood of cancellation of any interest payment may affect the market value of an investment in the Notes.

The level of the Issuer's Distributable Items is affected by a number of factors, and insufficient Distributable Items will restrict the Issuer's ability to make interest payments on the Notes

The level of the Issuer's Distributable Items is affected by a number of factors, principally its ability to receive income, directly or indirectly, in a manner which creates Distributable Items. Consequently, the Issuer's future Distributable Items, and therefore the Issuer's ability to make interest payments on the Notes, are a function of the Issuer's existing Distributable Items, future Group profitability and performance and the ability to distribute or dividend profits from the Issuer's operating subsidiaries up the Group structure to the Issuer. In addition, the Issuer's Distributable Items will also be reduced by the servicing of other debt and equity instruments.

The Issuer's interests may not be aligned with those of investors in the Notes

The Issuer's satisfaction of the Solvency Condition and the availability of Distributable Items as well as there being no occurrence of a Trigger Event will depend in part on decisions made by the Issuer and other entities in the Group relating to their businesses and operations, as well as the management of their capital positions.

The Issuer and other entities in the Group will have no obligation to consider the interests of Noteholders in connection with their strategic decisions, including in respect of capital management and the relationship among the various entities in the Group and the Group's structure. The Issuer may decide not to raise capital at a time when it is feasible to do so, even if that would result in the occurrence of a Trigger Event. It may decide not to propose to its shareholders to reallocate share premium to a distributable reserve account or to take other actions necessary in order for share premium or other reserves or earnings to be included in Distributable Items. Moreover, in order to avoid the use of public resources, the PRA may decide that the Issuer should allow a Trigger Event to occur or should cancel an interest payment at a time when it is feasible to avoid this. Noteholders will not have any claim against the Issuer or any other entity of the Group relating to decisions that affect the capital position of the Group, regardless of whether they result in the occurrence of a Trigger Event or a lack of Distributable Items or breach of the Solvency Condition. Such decisions could cause Noteholders to lose the full amount of their investment in the Notes.

The interest rate on the Notes will be reset on each Reset Date, which may affect the market value of the Notes

The Notes will initially accrue interest at the Initial Fixed Interest Rate to, but excluding, the first Reset Date. From, and including, the first Reset Date, however, the interest rate will be reset on each Reset Date to the Reset Rate of Interest (as described in Condition 4(e) (*Determination of Reset Rate of Interest*). This Reset Rate of Interest could be less than the Initial Fixed Interest Rate, which could affect the amount of any interest payments under the Notes and the market value of an investment in the Notes.

As the Notes bear interest at a fixed rate (reset from time to time), an investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Subject to certain conditions, the Issuer may redeem the Notes at the Issuer's option on certain dates

Subject, *inter alia*, to the solvency of the Issuer, to compliance with the Solvency Capital Requirement and Minimum Capital Requirement and to satisfaction of the Regulatory Clearance Condition, the Issuer may redeem all (but not some only) of the Notes at their principal amount outstanding together with (to the extent that such interest has not been cancelled in accordance with the Conditions) any accrued and unpaid interest to (but excluding) the date of redemption.

Such redemption may occur (i) at the option of the Issuer on the First Call Date or any Reset Date thereafter, (ii) at any time in the event of the occurrence of a Tax Event or (iii) at any time following the occurrence of (or

if there will occur within the forthcoming period of six months) a Capital Disqualification Event or a Ratings Methodology Event.

The Issuer shall only be entitled to redeem the Notes upon the occurrence of a Tax Event, a Capital Disqualification Event or a Ratings Methodology Event, if (amongst other conditions) it was reasonable for the Issuer to conclude, judged at the Issue Date, that such event was unlikely to occur. In that regard, prospective investors should note that, in relation to a Capital Disqualification Event, each Noteholder, by acquiring and holding any Note, will be deemed to have agreed and accepted that given the advisory nature of the European Insurance and Occupational Pensions Authority's paper entitled "*EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation*" (EIOPA-BoS-18/075) dated 28 February 2018 it was reasonable for the Issuer to conclude, judged at the Issue Date, that a Capital Disqualification Event was unlikely to occur as a result of the matters discussed at chapter 19 (Comparison of own funds in insurance and banking sectors) and chapter 20 (Capital instruments only eligible as tier 1 up to 20 per cent. of total tier 1) of such advisory paper.

The right of the Issuer to redeem the Notes in certain circumstances may limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, or in the case of an actual or perceived increased likelihood that the Issuer may so elect, the market value of the Notes generally will not rise above the price at which they can be redeemed.

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

Variation or substitution of the Notes without Noteholder consent

Subject as provided in Condition 8 (*Redemption, Substitution, Variation and Purchase*), the Issuer may, at its option and without the consent or approval of Noteholders, elect to substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Securities (i) in the event of the occurrence of a Tax Event or (ii) following the occurrence of (or where there will occur within six months) a Capital Disqualification Event. Following the occurrence of (or where there will occur within six months) a Ratings Methodology Event, the Issuer may elect to substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Rating Agency Compliant Securities.

There can be no assurance that, due to the particular circumstances of each Noteholder, any Qualifying Securities and/or Rating Agency Compliant Securities will be as favourable to each Noteholder in all respects or that, if it were entitled to do so, a particular Noteholder would make the same determination as the Issuer as to whether the terms of the relevant Qualifying Securities and/or Rating Agency Compliant Securities are not materially less favourable to investors than the terms of the Notes. The Issuer bears no responsibility towards the Noteholders for any adverse effects of such variation or substitution (including, without limitation, with respect to any adverse tax consequences suffered by any Noteholder).

Modification, waivers and substitution

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who do not attend and vote at the relevant meeting and Noteholders who vote in a manner contrary to the majority. The Trust Deed also provides that a resolution may be passed in writing (and where the Notes are held in global form by way of electronic consent) (see the section entitled *"Summary of Provisions Relating to the Notes in Global Form – Electronic Consent and Written Resolution"* for further details).

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) subject to the Issuer having first satisfied the Regulatory Clearance Condition, any modification of, or to the waiver or

authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) the substitution of another company as principal debtor under any Notes in place of the Issuer in each case in the circumstances described in the Conditions.

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 an Issuer Winding-Up. In an Issuer Winding-Up 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.

The terms of the Notes contain very limited covenants

There is no negative pledge in respect of the Notes. The Issuer is generally permitted to sell or otherwise dispose of any or substantially all of its assets to another corporation or other entity under the terms of the Notes. If the Issuer decides to dispose of a large amount of its assets, investors in the Notes will not be entitled to declare an acceleration of the maturity of the Notes, and those assets will no longer be available to support the Notes.

In addition, the Notes do not require the Issuer to comply with financial ratios or otherwise limit its ability or that of its subsidiaries to incur additional debt, nor do they limit the Issuer's ability to use cash to make investments or acquisitions, or the ability of the Issuer or its subsidiaries to pay dividends, repurchase shares or otherwise distribute cash to shareholders. Such actions could potentially affect the Issuer's ability to service its debt obligations, including those of the Notes.

The Notes are denominated in integral multiples

The Notes have denominations consisting of a minimum principal amount of £200,000 (the "**Specified Denomination**") plus integral multiples of £1,000 in excess thereof. Therefore, it is possible that the Notes may be traded in amounts in excess of the Specified Denomination that are not integral multiples of such Specified Denomination. In such a case a Noteholder, who as a result of trading such amounts, holds a principal amount of less than the Specified Denomination in his account with the relevant clearing system at the relevant time would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the Specified Denomination such that its holding amounts to a Specified Denomination. Further, a Noteholder who, as a result of trading such amounts, holds an amount which is less than the Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

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

Change of law

The terms of the Notes and the Trust Deed are based on law in effect as at the relevant Issue Date. No assurance can be given as to the impact of any possible judicial decision or change in law 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.

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, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction (as defined in the Conditions), unless 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 Relevant Jurisdiction 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 an Automatic Write Down may occur in respect of the Notes or that the Issuer may be wound up or enter into administration, or if at any time there is any actual or anticipated cancellation 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 of a Trigger Event occurring.

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 Prospectus should be read and construed in conjunction with the following:

(1) the audited consolidated financial statements of RHUK for the year ended 31 December 2015 (together with the audit report prepared in connection therewith), which appear on pages 44 to 86 of RHUK's Annual Report and Accounts for the year ended 31 December 2015 (the "**RHUK 2015 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1020/rothesay_ar2015.pdf;

(2) 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;

(3) 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;

(4) the audited consolidated financial statements of the Issuer for the year ended 31 December 2015 (together with the audit report prepared in connection therewith), which appear on pages 16 to 84 of the Issuer's Annual Report and Accounts for the year ended 31 December 2015 (the "**Issuer 2015 Annual Report**"), which can be found on the Issuer's website via the following link: https://www.rothesaylife.com/media/1220/rothesay-life-ltd-2015-statutory-accounts.pdf;

(5) 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;

(6) 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;

(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; and

(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.

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

Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus.

The Issuer will provide, without charge, to each person to whom a copy of this Prospectus 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 Prospectus.

OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference herein. Capitalised terms which are defined in "Terms and Conditions of the Notes" have the same meaning when used in this overview.

Issuer	Rothesay Life plc[1].
Managers	Morgan Stanley & Co. International plc Barclays Bank PLC Lloyds Bank Corporate Markets plc NatWest Markets Plc
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Europe AG.
Notes	£350,000,000 Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes.
Issue Date	12 September 2018.
Issue Price	100 per cent.
Perpetual Securities	The Notes will be perpetual securities with no fixed redemption date, and the holders of the Notes (the "**Noteholders**") will have no right to require the Issuer to redeem or purchase the Notes at any time.
Status and Subordination	The Notes will constitute direct, unsecured and deeply subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders against the Issuer will be subordinated as described in Condition 3 (*Status of the Notes and rights on a winding-up*).
No set-off	By acceptance of the Notes, subject to applicable law, each Noteholder will be deemed to have waived any right of set-off or counterclaim that such Noteholder might otherwise have against the Issuer in respect of or arising under the Notes or the Trust Deed.
Interest	The Notes will bear interest on their principal amount: (i) from (and including) the Issue Date to (but excluding) 12 September 2028 ("**First Call Date**") at a fixed rate of 6.875 per cent. per annum; and *(ii)* thereafter at a fixed rate of interest which will be reset on the First Call Date and on each fifth anniversary of the First Call Date thereafter (each such date, a "**Reset Date**") as the sum of the gross redemption yield on a semi-annual

[1] Legal Entity Identifier (LEI): MFQO711J5UPYBWXSPG12

compounding basis of the relevant Benchmark Gilt, plus the Margin.

Interest will, subject as described below in "*Cancellation of Interest Payments*", "*Mandatory Cancellation of Interest Payments*", "Issuer's *Distributable Items*" and "*Interest Payments Discretionary*", be payable on the Notes semi-annually in arrear on 12 March and 12 September (each, an "**Interest Payment Date**") in each year commencing on 12 March 2019, in equal instalments.

Cancellation of Interest Payments

Subject as more fully described in the Conditions, Interest Payments shall not be made by the Issuer in the following circumstances:

(i) the cancellation of such Interest Payment, or such Interest Payment not becoming due and payable, in accordance with the provisions described under "*Mandatory Cancellation of Interest Payments*" below;

(ii) the Issuer's exercise of its discretion otherwise to cancel such Interest Payment (or relevant part thereof) as described under "*Interest Payments Discretionary*" below; or

(iii) the cancellation of payments of accrued interest in accordance with the provisions described under "*Automatic Write Down*" below.

Any Interest Payment (or relevant part thereof) which is cancelled or does not become due and payable in accordance with the Conditions shall not accumulate or be payable at any time thereafter and such cancellation or non-payment shall not constitute a default or event of default for any purpose.

Mandatory Cancellation of Interest Payments

Subject to certain limited exceptions as further described hereunder, the Issuer shall be required to cancel in full any Interest Payment if:

(i) the Solvency Condition is not met at the time for payment of such Interest Payment, or would cease to be met immediately following, and as a result of making, such Interest Payment (having regard also to any Additional Amounts payable with respect thereto);

(ii) there is non-compliance with the Solvency Capital Requirement at the time for payment of such Interest Payment, or non-compliance with the Solvency Capital Requirement would occur immediately following, and as a result of making, such Interest Payment (having regard also to any Additional Amounts payable with respect thereto);

(iii) there is non-compliance with the Minimum Capital Requirement at the time for payment of such Interest Payment, or non-compliance with the Minimum Capital Requirement would occur immediately following, and as a

	result of making, such Interest Payment (having regard also to any Additional Amounts payable with respect thereto); (iv) the amount of such Interest Payment, together with any Additional Amounts payable with respect thereto, when aggregated together with any interest payments or distributions which have been paid or made or which are scheduled simultaneously to be paid or made on all Tier 1 Own Funds (excluding any such payments which do not reduce the Issuer's Distributable Items and any payments already accounted for by way of deduction in determining the Issuer's Distributable Items) since the end of the latest financial year of the Issuer and prior to, or on, such Interest Payment Date, would exceed the amount of the Issuer's Distributable Items as at the Interest Payment Date in respect of such Interest Payment; or (v) the Issuer is otherwise required by the PRA or under the Relevant Rules to cancel the relevant Interest Payment. The Issuer shall not be required to cancel an Interest Payment where such an event or circumstance has occurred and is continuing, or would occur if payment of interest on the Notes were to be made, to the extent permitted by the Relevant Rules, where: (i) it is of the type described in sub-paragraph (ii) above only; (ii) the PRA has exceptionally waived the cancellation of the Interest Payment; (iii) payment of the Interest Payment would not further weaken the solvency position of the Issuer or the Insurance Group; and (iv) the Minimum Capital Requirement will be complied with immediately following such Interest Payment, if made.
Issuer's Distributable Items	With respect to and as at any Interest Payment Date, without double-counting, an amount equal to: (i) the Distributable Profits of the Issuer, calculated on an unconsolidated basis, as at the last day of the then most recently ended financial year of the Issuer; plus (ii) the interim retained earnings (if any) of the Issuer, calculated on an unconsolidated basis, for the period from the Issuer's then latest financial year end to (but excluding) such Interest Payment Date; less (iii) the interim net loss (if any) of the Issuer, calculated on an unconsolidated basis, for the period from the Issuer's then latest financial year end to (but excluding) such Interest Payment Date.
Interest Payments Discretionary	Interest on the Notes will be due and payable only at the sole and absolute discretion of the Issuer, subject to the additional restrictions set out in the Conditions. Accordingly, the Issuer may

	at any time, subject as provided below, elect to cancel any Interest Payment (or part thereof) which would otherwise be due and payable on any Interest Payment Date.
Solvency Condition	Other than in the circumstances where an Issuer Winding-Up has occurred or is occurring, all payments under or arising from the Notes or (subject to Condition 3*(c)*) the Trust Deed shall be conditional upon the Issuer being solvent at the time for payment by the Issuer and no amount shall be due and payable by the Issuer under or arising from the Notes or the Trust Deed (including any damages for breach of any obligations thereunder) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. The Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities. Any payment of interest that would have been due and payable but for the Solvency Condition not being satisfied shall be cancelled. For this purpose: "**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. "**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, all in such manner as the Directors may determine. "**Senior Creditors**" means creditors of the Issuer: (i) who are unsubordinated creditors including all policyholders (if any) or beneficiaries under contracts of insurance of the Issuer (for the avoidance of doubt, the claims of such policyholders and beneficiaries shall include all amounts to which such policyholders or beneficiaries 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 or beneficiaries may have), if any; (ii) whose claims 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) upon issue or 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 3 Capital; (iii) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of the Issuer but not further or otherwise; or (iv) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the Notes in a winding up or administration of the Issuer occurring prior to a Trigger Event.
Automatic Write Down	On the Business Day following the determination that a Trigger Event has occurred (the "**Write Down Date**"), an Automatic Write Down shall occur. "**Automatic Write Down**" means the irrevocable and automatic (without the need for the consent of the Noteholders or the Trustee) reduction of the full principal amount of such Note to zero on a permanent basis, the cancellation of all accrued and unpaid interest and any other amounts (if any) arising under or in connection with the Notes and/or the Trust Deed and the cancellation of the Notes on the Write Down Date. Following such Automatic Write Down there shall be no reinstatement of any part of the principal amount of, or interest on, the Notes at any time, including where the Trigger Event ceases to occur. Effective upon, and following, the Automatic Write Down, the Issuer's obligation to repay the principal amount outstanding of each Note shall, without any further action required on the part of the Issuer or the Trustee, be irrevocably cancelled and Noteholders shall not have any rights against the Issuer in a winding-up or administration of the Issuer or otherwise with respect to: (i) repayment of the principal amount of the Notes or any part thereof; (ii) the payment of any interest on the Notes for any period; or (iii) any other amounts arising under or in connection with the Notes and/or the Trust Deed. The reduction to zero of the principal amount of a Note pursuant to an Automatic Write Down shall be permanent and shall not constitute a default or event of default on the part of the Issuer for any purpose and will not give Noteholders or the Trustee any right to take any enforcement action under the Notes or the Trust Deed. See Condition 6 (*Automatic Write Down*) for further information.

Trigger Event	A Trigger Event shall occur if at any time: (i) the amount of Own Fund Items eligible to cover the Solvency Capital Requirement is equal to or less than 75 per cent. of the Solvency Capital Requirement; (ii) the amount of Own Fund Items eligible to cover the Minimum Capital Requirement is equal to or less than the Minimum Capital Requirement; or (iii) a breach of the Solvency Capital Requirement has occurred and such breach has not been remedied within a period of three months from the date on which the breach was first observed.
Redemption at the option of the Issuer	Subject to certain conditions, the Issuer may, at its option, redeem all (but not some only) of the Notes, on the First Call Date or any Reset Date thereafter at their principal amount together with (to the extent that such interest has not been cancelled in accordance with the Conditions) any accrued and unpaid interest to (but excluding) the date of redemption.
Redemption, substitution or variation at the option of the Issuer for taxation reasons	Subject to certain conditions, if a Tax Event has occurred and is continuing, then the Issuer may, at its option, without any requirement for the consent or approval of the Noteholders, either: (i) redeem all (but not some only) of the Notes at any time at their principal amount, together with (to the extent that such interest has not been cancelled in accordance with the Conditions) any accrued and unpaid interest to (but excluding) the date of redemption; or (ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Securities.
Redemption, substitution or variation at the option of the Issuer due to a Capital Disqualification Event	Subject to certain conditions, if at any time 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 the Issuer may, at its option (without any requirement for the consent or approval of the Noteholders), either: (i) redeem all (but not some only) of the Notes at any time at their principal amount, together with (to the extent that such interest has not been cancelled in accordance with the Conditions) any accrued and unpaid interest to (but excluding) the date of redemption; or (ii) substitute at any time all (but not some only) of the Notes for, or vary at any time the terms of the Notes so that they become or remain Qualifying Securities,

	provided, however, that no such notice of redemption, substitution or variation shall be given more than 12 months following the occurrence of the relevant Capital Disqualification Event. A "**Capital Disqualification Event**" shall be deemed to have occurred if at any time, as a result of any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so) the whole or any part of the principal amount of the Notes is excluded from counting as Tier 1 Capital for the purposes of (i) the Issuer on a solo, group or consolidated basis or (ii) the Insurance Group on a 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).
Redemption, substitution or variation at the option of the Issuer due to a Ratings Methodology Event	Subject to certain conditions, if a Ratings Methodology Event has occurred and is continuing, or, as a result of any change in (or clarification to) the methodology of the Rating Agency (or in the interpretation of such methodology), a Ratings Methodology Event will occur within the forthcoming period of six months, then the Issuer may, at its option, without any requirement for the consent or approval of the Noteholders, either: (i) redeem all (but not some only) of the Notes at any time at their principal amount outstanding together with (to the extent that such interest has not been cancelled in accordance with the Conditions) any accrued and unpaid interest to (but excluding) the date of redemption; or (ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Rating Agency Compliant Securities, provided, however, that no such notice of redemption, substitution or variation shall be given more than 12 months following the occurrence of the relevant Ratings Methodology Event. A "**Ratings Methodology Event**" will be deemed to occur if at any time there occurs a change in (or clarification to) the methodology of any Rating Agency (or in the interpretation of such methodology) as a result of which the "equity credit" (or such other nomenclature as may be used by the relevant Rating Agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer's senior obligations in terms of either leverage or total capital) assigned by the relevant Rating Agency to the Notes is, as notified by the relevant Rating Agency to the Issuer or as published by the relevant Rating Agency, reduced when compared to the "equity credit" first assigned by the relevant Rating Agency or its

	predecessor to the Notes (whether on or around the Issue Date or at any time subsequent thereto);
Purchases	Subject to certain limited exceptions as more fully described in the Conditions, the Issuer or any of its Subsidiaries may purchase Notes in any manner and at any price.
Conditions to redemption and purchase	Subject to certain conditions, the Issuer may not redeem or purchase any Notes unless each of the following conditions, to the extent required pursuant to the Relevant Rules at the relevant time, is satisfied: (i) the relevant date of any redemption or purchase is on or after the fifth anniversary of the Issue Date unless such redemption or purchase is funded out of the proceeds of a new issuance of, or the Notes are exchanged into, Tier 1 Own Funds of the same or a higher quality than the Notes; (ii) in respect of any redemption or purchase of the Notes occurring on or after the fifth anniversary of the Issue Date and before the tenth anniversary of the Issue Date, the PRA has confirmed to the Issuer that it is satisfied that the Solvency Capital Requirement is exceeded by an appropriate margin (taking into account the solvency position of the Issuer including the Issuer's medium-term capital management plan) unless such redemption or purchase is funded out of the proceeds of a new issuance of, or the Notes are exchanged into, Tier 1 Own Funds of the same or a higher quality than the Notes; (iii) the Solvency Condition is met immediately prior to the redemption or purchase of the Notes (as applicable) and the redemption or purchase (as applicable) would not cause the Solvency Condition to be breached; (iv) the Solvency Capital Requirement is met immediately prior to the redemption or purchase of the Notes (as applicable) and the redemption or purchase (as applicable) would not cause the Solvency Capital Requirement to be breached; (v) the Minimum Capital Requirement is met immediately prior to the redemption or purchase of the Notes (as applicable) and the redemption or purchase (as applicable) would not cause the Minimum Capital Requirement to be breached; (vi) no Insolvent Insurer Winding-up has occurred and is continuing; and/or (vii) the Regulatory Clearance Condition is satisfied, Notwithstanding the above conditions, if at the time of any such redemption or purchase, the prevailing Relevant Rules permit the redemption or purchase only after compliance with one or more additional or alternative requirements or pre-conditions to those set out in Condition 8*(b)*, the Issuer shall comply with such

	additional and/or any appropriate, alternative requirement or pre-conditions (which shall be deemed to be the "Redemption and Purchase Conditions").
Preconditions to redemption, variation and substitution	Prior to the publication of any notice of redemption, variation or substitution, the Issuer shall deliver to the Trustee a certificate signed by two of its directors stating that, as the case may be, the Issuer is entitled to redeem, vary or substitute the Notes on the grounds that a Tax Event, a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing as at the date of the certificate or, as the case may be, (in the case of a Capital Disqualification Event or a Ratings Methodology Event) will occur within a period of six months and that it would have been reasonable for the Issuer to conclude, judged at the Issue Date, the relevant Tax Event, Capital Disqualification Event or Ratings Methodology Event was unlikely to occur. In the case of a notice of redemption, variation or substitution on the grounds of a Tax Event, the Issuer shall also deliver to the Trustee an opinion from a nationally recognised law firm or other tax adviser (as further described in the Conditions). Each Noteholder, by acquiring and holding any Note, will be deemed to have agreed and accepted that, given the advisory nature of the EIOPA Advice Paper, it was reasonable for the Issuer to conclude, judged at the Issue Date, that a Capital Disqualification Event was unlikely to occur as a result of the matters discussed at chapter 19 (*Comparison of own funds in insurance and banking sectors*) and chapter 20 (*Capital instruments only eligible as tier 1 up to 20 per cent. of total tier 1*) of the EIOPA Advice Paper. The Issuer shall not be entitled to amend or otherwise vary the terms of the Notes or substitute the Notes unless: (i) it has notified the PRA in writing of its intention to do so not less than one month (or such other period as may be required by the PRA or the Relevant Rules at the relevant time) prior to the date on which such amendment, variation or substitution is to become effective; and (ii) the Regulatory Clearance Condition has been satisfied.
Withholding tax and additional amounts	Payments on the Notes by or on behalf of the Issuer 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 Relevant Jurisdiction unless such withholding or deduction is required by law. In any such event, the Issuer will, subject to certain exceptions set out in Condition 9 (*Taxation*), pay such additional amounts in relation to interest (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 as would have been received by them had no such withholding or deduction been required. "**Relevant Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes.
Enforcement	If default is made by the Issuer for a period of 14 days or more in the payment of principal due in respect of the Notes or any of them 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 (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction) institute proceedings for the winding-up of the Issuer. Subject to a Trigger Event having not occurred at such time, in the event of an Issuer Winding-Up (whether or not instituted by the Trustee), 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 (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction) prove or claim in such Issuer Winding-Up, such claim being as provided in, and subordinated in the manner described in, Condition 3(*b*) (Issuer Winding-Up), but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.
Form	The Notes will be issued in registered form and represented upon issue by a Global Certificate which will be registered in the name of a nominee for a common depositary (the "**Common Depositary**") for Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and Euroclear Bank SA/NV ("**Euroclear**") on or about the Issue Date.
Denomination	The Notes will be issued in denominations of £200,000 each and integral multiples of £1,000 in excess thereof.
Meetings of Noteholders	The Conditions and the Trust Deed contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed also provides that a resolution may be passed in writing (and where the Notes are held in global form by way of electronic consent) (see the section entitled *"Summary of*

	Provisions Relating to the Notes in Global Form – Electronic Consent and Written Resolution" for further details).
Listing	Application has been made for the Notes to be admitted to the Official List and to trading on the Main Securities Market of Euronext Dublin.
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.
ISIN	XS1865334020.
Common Code	186533402.
FISN	ROTHESAY LF PLC/BD PERP REGS.
CFI	DBFXPR.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
MiFID II Product Governance/PRIIPs Regulation/FCA CoCo restriction	Soley for the purposes of each manufacturer's product approval processes, the manufacturers have concluded that: (i) the target market for the Notes is eligible counterparties and professional clients only; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. No PRIIPs Regulation key information document has been prepared as the Notes are not available to retail investors in the EEA. No sales to retail investors.
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.
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.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (as defined below) that, save for the paragraphs in italics, shall be applicable to the Certificates (as defined below) in definitive form (if any) issued in exchange for the Global Certificate representing the Notes. The full text of these terms and conditions shall be endorsed on the Certificates relating to such Notes. Provisions in italics do not form part of the Conditions (as defined below).

The issue of the £350,000,000 Fixed Rate Reset Perpetual Restricted Tier 1 Write Down Notes (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 17 and forming a single series with the Notes) was (save in respect of any such further notes) authorised by resolutions of the board of directors of Rothesay Life plc (or any substitute therefor from time to time pursuant to the terms of Condition 14, the "**Issuer**") passed on 31 August 2018.

The Notes are constituted by a trust deed dated 12 September 2018 (the "**Trust Deed**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being and from time to time appointed as the trustee or trustees under the Trust Deed) as trustee in respect of the Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the paying agency agreement dated 12 September 2018 (the "**Agency Agreement**") relating to the Notes between the Issuer, the Trustee, Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression shall include any successor thereto) and Citibank, N.A., London Branch as transfer agent (the "**Transfer Agent**", which expression shall include any successor thereto and any additional transfer agents appointed thereunder), as initial agent bank (the "**Agent Bank**", which expression shall include any successor thereto) and as initial principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor thereto, and, together with any further paying agents appointed thereunder, the "**Paying Agents**", which expression shall include any successors thereto) are available for inspection during usual business hours at the principal offices 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 any Transfer Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

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

1 Form, Denomination and Title

(a) Form and Denomination

The Notes are issued in registered form in principal amounts of £200,000 and integral multiples of £1,000 in excess thereof (referred to as the "**principal amount**" of a Note, and references in these Conditions to "**principal**" in relation to a Note shall be construed accordingly) without coupons attached. A certificate (each, a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar (the "**Register**") on which shall be entered the names, addresses and account details of Noteholders and the particulars of the Notes held by them and of all transfers and repayments of Notes.

(b) Title

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

2 Transfers of Notes and Issue of Certificates

(a) Transfers

Subject to Conditions 2(*d*) and (*e*), each Note may be transferred (in whole or in part, subject to such transfer being in a minimum denomination of £200,000 and integral multiples of £1,000 in excess thereof) by depositing the Certificate issued in respect of that Note, together with the form of transfer in respect thereof duly completed and executed at the specified office of the Registrar or a Transfer Agent.

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

(b) Delivery of new Certificates

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

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

(c) Formalities free of charge

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

(d) Closed periods

No Noteholder may require the transfer of a Note (or part thereof) to be registered (i) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 8(*f*), (ii) after the Notes have been called for redemption pursuant to Condition 8 or (iii) during the period of seven days ending on (and including) any Record Date.

(e) *Regulations*

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

3 Status of the Notes and rights on a winding-up

(a) *Status*

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders in any Issuer Winding-Up are as described in the Trust Deed, this Condition 3 and Conditions 6 and 11.

(b) *Issuer Winding-Up*

The rights and claims of the Noteholders (and the Trustee on their behalf) are subordinated to the claims of Senior Creditors in that if at any time prior to a Write Down Date an Issuer Winding-Up occurs, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the holder of such Note if, throughout such Issuer Winding-Up, such Noteholder were the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") having an equal right to a return of assets in the Issuer Winding-Up to, and so ranking *pari passu* with, the holders of the most senior class or classes of issued preference shares (if any) in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the Issuer Winding-Up over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Issuer Winding-Up were an amount equal to the principal amount of the relevant Note and any accrued but unpaid interest thereon (other than any interest which has been cancelled pursuant to these Conditions) together with any damages awarded for breach of any obligations in respect of such Note, whether or not the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable (and, in the case of an administration, on the assumption that shareholders of the Issuer were entitled to claim and recover in respect of their shares to the same degree as in a winding-up or liquidation).

(c) *Trustee's fees*

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

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 Conditions 2*(d)*, 5, 6 or 8.

(d) *Solvency Condition*

Other than in the circumstances where an Issuer Winding-Up has occurred or is occurring, all payments under or arising from the Notes or (subject to Condition 3*(c)*) 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 (including any damages awarded for breach of obligations

thereunder) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**").

Any payment of interest that would have been due and payable but for the operation of this Condition 3(*d*) shall be cancelled.

For the purposes of this Condition 3(*d*), the Issuer will be "**solvent**" if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities.

A certificate as to the solvency or lack thereof of the Issuer signed by two Directors or, if there is a winding-up or administration of the Issuer, the liquidator or, as the case may be, the administrator of the Issuer shall (in the absence of manifest error) be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and shall be binding on all such persons. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(e) *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 in respect of, or arising under or in connection with, the Notes or the Trust Deed and each Noteholder shall, by virtue of his holding of any Note, be deemed, to the extent permitted under applicable 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 in respect of, or arising under, or in connection with, the Notes is discharged by set-off, such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

4 Interest

(a) *Interest Rate and Interest Payment Dates*

Subject to Conditions 3(*d*), 5 and 6, the Notes bear interest on their principal amount at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 4.

Subject to Conditions 3(*d*), 5 and 6, interest shall be payable on the Notes semi-annually in arrear on each Interest Payment Date in equal instalments (in respect of each Interest Period ending prior to the First Call Date, of £34.375 per Calculation Amount if paid in full), in each case as provided in this Condition 4.

Where it is necessary to compute an amount of interest in respect of any Note for any period (other than any full Interest Period), the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (a) two and (b) the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

(b) *Interest Accrual*

Subject to Conditions 3(*d*), 5 and 6, the Notes will accrue interest in respect of each Interest Period and cease to bear interest from (and including) the due date for redemption or substitution thereof pursuant to Condition 8, unless, upon surrender of the Certificate representing any Note, payment of all amounts due in respect of such Note is not properly and duly made, in which event interest shall continue to accrue on the principal amount of such Note, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Interest in respect of any Note shall be calculated per Calculation Amount and the amount of interest per Calculation Amount shall, save as provided in Condition 4(*a*) in relation to equal instalments and subject to Conditions 3(*d*), 5 and 6, be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 4(*a*) for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards). Where the denomination of a Note is more than the Calculation Amount, the amount of interest payable in respect of each such Note, is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Note.

(c) *Initial Fixed Interest Rate*

For the Initial Fixed Rate Interest Period, the Notes bear interest, subject to Conditions 3(*d*), 5 and 6, at the rate of 6.875 per cent. per annum (the "**Initial Fixed Interest Rate**").

(d) *Reset Rate of Interest*

The Interest Rate will be reset (the "**Reset Rate of Interest**") in accordance with this Condition 4 on each Reset Date. The Reset Rate of Interest in respect of each Reset Period will be determined by the Agent Bank on the relevant Reset Determination Date as the sum of the relevant Reset Reference Rate and the Margin.

(e) *Determination of Reset Rate of Interest*

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date, subject to receipt from the Issuer of the bid and offered price of the Benchmark Gilt as provided by the Reset Reference Banks (if any), determine the Reset Rate of Interest in respect of the relevant Reset Period. The determination of the Reset Rate of Interest by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

(f) *Publication of Reset Rate of Interest*

The Agent Bank shall cause notice of the Reset Rate of Interest determined in accordance with this Condition 4 in respect of each Reset Period to be given to the Trustee, the Principal Paying Agent, the Registrar, each of the Transfer Agents, any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 13, the Noteholders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

If the Notes become due and payable pursuant to Condition 11, the Reset Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated by the Agent Bank in accordance with this Condition 4 but no publication of the Reset Rate of Interest need be made unless the Trustee otherwise requires.

(g) *Agent Bank*

The Issuer will maintain an Agent Bank. The name of the initial Agent Bank is set out in the preamble to these Conditions.

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

(h) *Determinations of Agent Bank Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4, by the Agent Bank, shall (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Principal Paying Agent, the Registrar, the Transfer Agents and all Noteholders and (in the absence of wilful default or gross negligence) no liability to the Noteholders, the Trustee or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

5 Cancellation of Interest

(a) *Interest Payments Discretionary*

Interest on the Notes is due and payable only at the sole and absolute discretion of the Issuer and is subject to the provisions of Conditions 3(*d*), 5(*b*) and 6. Accordingly, the Issuer may at any time elect to cancel any Interest Payment (or any part thereof) which would otherwise be due and payable on any Interest Payment Date.

If the Issuer does not make an Interest Payment or part thereof on the relevant Interest Payment Date, such non-payment shall evidence the non-payment and cancellation of such Interest Payment (or relevant part thereof) by reason of it not being due in accordance with Condition 3(*d*), the cancellation of such Interest Payment in accordance with Condition 5(*b*), the cancellation of interest upon an Automatic Write Down in accordance with Condition 6 or, as appropriate, the Issuer's exercise of its discretion otherwise to cancel such Interest Payment (or relevant part thereof) in accordance with this Condition 5(*a*), and accordingly such interest shall not in any such case be due and payable.

(b) *Mandatory Cancellation of Interest*

To the extent required by the Relevant Rules from time to time and save as otherwise permitted pursuant to Condition 5(*c*), the Issuer shall cancel in full any Interest Payment on the Notes in accordance with this Condition 5 if:

(i) the Solvency Condition is not met at the time for payment of such Interest Payment, or would cease to be met immediately following, and as a result of making, such Interest Payment (having regard also to any Additional Amounts payable with respect thereto);

(ii) there is non-compliance with the Solvency Capital Requirement at the time for payment of such Interest Payment, or non-compliance with the Solvency Capital Requirement would occur immediately following, and as a result of making, such Interest Payment (having regard also to any Additional Amounts payable with respect thereto);

(iii) there is non-compliance with the Minimum Capital Requirement at the time for payment of such Interest Payment, or non-compliance with the Minimum Capital Requirement would occur immediately following, and as a result of making, such Interest Payment (having regard also to any Additional Amounts payable with respect thereto);

(iv) the amount of such Interest Payment, together with any Additional Amounts payable with respect thereto, when aggregated together with any interest payments or distributions which have been paid or made or which are scheduled simultaneously to be paid or made on all Tier 1 Own Funds (excluding any such payments which do not reduce the Issuer's Distributable Items and any payments already accounted for by way of deduction in determining the Issuer's Distributable Items) since the end of the latest financial year of the Issuer and prior to, or on, such Interest Payment Date, would exceed the amount of the Issuer's Distributable Items as at the Interest Payment Date in respect of such Interest Payment; or

(v) the Issuer is otherwise required by the PRA or under the Relevant Rules to cancel the relevant Interest Payment,

each of the events or circumstances described in sub-paragraphs (i) to (v) (inclusive) above being a "**Mandatory Interest Cancellation Event**".

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

(c) Waiver of Cancellation of Interest Payments by the PRA

Notwithstanding Condition 5(*b*), the Issuer shall not be required to cancel an Interest Payment where a Mandatory Interest Cancellation Event has occurred and is continuing, or would occur if payment of interest on the Notes were to be made (to the extent permitted by the Relevant Rules) where:

(i) the Mandatory Interest Cancellation Event is of the type described in sub-paragraph (ii) of Condition 5(*b*) only;

(ii) the PRA has exceptionally waived the cancellation of the Interest Payment;

(iii) payment of the Interest Payment would not further weaken the solvency position of the Issuer or the Insurance Group; and

(iv) the Minimum Capital Requirement will be complied with immediately following such Interest Payment, if made.

A certificate signed by two Directors confirming that the conditions set out in this Condition 5(*c*) are met, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and shall be binding on all such persons. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(d) *Effect of Cancellation of Interest Payments*

Any Interest Payment (or relevant part thereof) which is cancelled in accordance with this Condition 5 or which is otherwise not due and payable in accordance with Condition 3(*d*) or which is cancelled in accordance with Condition 6 shall not become due and shall not accumulate or be payable at any time thereafter, and Noteholders shall have no rights in respect thereof (whether in an Issuer Winding-Up or otherwise) and any such cancellation or non-payment shall not constitute a default or event of default on the part of the Issuer for any purpose and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed.

(e) *Notice of Cancellation of Interest*

If practicable, the Issuer shall provide notice of any cancellation of any Interest Payment (or any part thereof) pursuant to Condition 5(*a*) or 5(*b*) to Noteholders in accordance with Condition 13, and to the Trustee in a certificate signed by two Directors, and the Principal Paying Agent and the Registrar in writing, at least five Business Days prior to the relevant Interest Payment Date (or, if the determination that such Interest Payment (or any part thereof) is to be cancelled is made after such fifth Business Day, as soon as is practicable following the making of such determination). However, any failure to provide such notice will not invalidate the cancellation of the relevant Interest Payment.

6 Automatic Write Down

If a Trigger Event has occurred, the Issuer shall:

(i) immediately inform the PRA of the occurrence of the Trigger Event; and

(ii) without delay, give the Trigger Event Notice which notice shall be irrevocable.

On the Business Day following the determination that a Trigger Event has occurred (the "**Write Down Date**"), an Automatic Write Down shall occur.

Following such Automatic Write Down there shall be no reinstatement of any part of the principal amount of, or interest on, the Notes at any time, including where the Trigger Event ceases to occur.

Effective upon, and following, the Automatic Write Down, the Issuer's obligation to repay the principal amount outstanding of each Note shall, without any further action required on the part of the Issuer or the Trustee, be irrevocably cancelled and Noteholders shall not have any rights against the Issuer in a winding-up or administration of the Issuer or otherwise with respect to:

(i) repayment of the principal amount of the Notes or any part thereof;

(ii) the payment of any interest on the Notes for any period; or

(iii) any other amounts arising under or in connection with the Notes and/or the Trust Deed.

Such Automatic Write Down shall take place without the need for the consent of Noteholders or the Trustee.

The determination as to whether a Trigger Event has occurred shall be made by the Issuer. Any such determination shall be binding on the Trustee and the Noteholders.

Any Trigger Event Notice delivered to the Trustee shall be accompanied by a certificate signed by two Directors certifying the accuracy of the contents of the Trigger Event Notice upon which the Trustee may rely (without further enquiry and without liability to any person).

Any failure by the Issuer to give a Trigger Event Notice or the aforementioned certificate will not affect the effectiveness of, or otherwise invalidate, any Automatic Write Down, or give Noteholders any rights as a result of such failure.

The reduction to zero of the principal amount of a Note pursuant to this Condition 6 shall be permanent and shall not constitute a default or event of default on the part of the Issuer for any purpose and will not give Noteholders or the Trustee any right to take any enforcement action under the Notes or the Trust Deed.

7 Payments

(a) *Payments in respect of Notes*

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

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

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

(b) *Payments subject to applicable laws*

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) 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 (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

(c) *No commissions*

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

(d) *Payment on Business Days*

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

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

(e) *Partial payments*

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

respect to the amount of any Interest Payment or part thereof, the Registrar shall have regard to the provisions of Condition 5(*a*).

(f) *Agents*

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

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

(ii) whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank; and

(iii) 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 termination or appointment and of any changes in specified offices of any of the Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

8 Redemption, Substitution, Variation and Purchase

(a) *No Redemption Date*

The Notes are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem or purchase the Notes in accordance with the following provisions of this Condition 8. The Notes are not redeemable at the option of the Noteholders at any time.

(b) *Conditions to Redemption and Purchase*

To the extent required pursuant to the Relevant Rules at the relevant time, and save as otherwise permitted pursuant to Condition 8(*c*), the Issuer may not redeem or purchase any Notes unless each of the following conditions is satisfied:

(i) the relevant date of any redemption or purchase of the Notes pursuant to Condition 8(*g*), 8(*h*), 8(*i*) or 8(*m*) is on or after the fifth anniversary of the Issue Date unless such redemption or purchase is funded out of the proceeds of a new issuance of, or the Notes are exchanged into, Tier 1 Own Funds of the same or a higher quality than the Notes;

(ii) in respect of any redemption or purchase of the Notes occurring on or after the fifth anniversary of the Issue Date and before the tenth anniversary of the Issue Date, the PRA has confirmed to the Issuer that it is satisfied that the Solvency Capital Requirement is exceeded by an appropriate margin (taking into account the solvency position of the Issuer including the Issuer's medium-term capital management plan) unless such redemption or purchase is funded out of the proceeds of a new issuance of, or the Notes are exchanged into, Tier 1 Own Funds of the same or a higher quality than the Notes;

(iii) the Solvency Condition is met immediately prior to the redemption or purchase of the Notes (as applicable) and the redemption or purchase (as applicable) would not cause the Solvency Condition to be breached;

(iv) the Solvency Capital Requirement is met immediately prior to the redemption or purchase of the Notes (as applicable) and the redemption or purchase (as applicable) would not cause the Solvency Capital Requirement to be breached;

(v) the Minimum Capital Requirement is met immediately prior to the redemption or purchase of the Notes (as applicable) and the redemption or purchase (as applicable) would not cause the Minimum Capital Requirement to be breached;

(vi) no Insolvent Insurer Winding-up has occurred and is continuing; and/or

(vii) the Regulatory Clearance Condition is satisfied,

the conditions set out in paragraphs (i) to (vii) (inclusive) above (to the extent required pursuant to the Relevant Rules at the relevant time as aforesaid) being the "**Redemption and Purchase Conditions**".

Notwithstanding the above conditions, if at the time of any such redemption or purchase, the prevailing Relevant Rules permit the redemption or purchase only after compliance with one or more additional or alternative requirements or pre-conditions to those set out above in this Condition 8*(b)*, the Issuer shall comply with such additional and/or any appropriate, alternative requirement or pre-conditions (which shall be deemed to be the "Redemption and Purchase Conditions").

If on the proposed date for redemption of the Notes the Redemption and Purchase Conditions are not met, redemption of the Notes shall instead be suspended and such redemption shall occur only in accordance with Conditions 8(*c*) and 8(*d*).

(c) *Waiver of Redemption and Purchase Condition relating to Solvency Capital Requirement by the PRA*

Notwithstanding Condition 8(*b*), the Issuer shall be entitled to redeem or purchase Notes (to the extent permitted by the Relevant Rules) where:

(i) all Redemption and Purchase Conditions are met other than that described in paragraph (iv) of Condition 8(*b*);

(ii) the PRA has exceptionally waived the cancellation or suspension of redemption or, as the case may be, purchase of the Notes;

(iii) all (but not some only) of the Notes being redeemed or purchased at such time are exchanged for a new issue of Tier 1 Own Funds of the same or higher quality than the Notes; and

(iv) the Minimum Capital Requirement will be complied with immediately following such redemption or purchase, if made.

A certificate signed by two Directors confirming that the conditions set out in this Condition 8(*c*) are met, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and shall be binding on all such persons. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without obligation to verify or investigate the accuracy thereof.

(d) *Suspension of Redemption*

The Issuer shall notify the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders no later than five Business Days prior to any date set for redemption of the Notes if such redemption is to be suspended in accordance with Condition 8(*b*), provided that if an event occurs or is determined less than five Business Days prior to the date set for redemption that results in the Redemption and Purchase Conditions ceasing to be met, the Issuer shall notify the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders as soon as reasonably practicable following the occurrence or determination (as the case may be) of such event.

If redemption of the Notes does not occur on the date specified in the notice of redemption by the Issuer under Condition 8 as a result of the operation of Condition 8(*b*), the Issuer shall redeem such Notes at their principal amount outstanding together with any accrued and unpaid interest (in each case, to the extent that such amounts have not been cancelled pursuant to these Conditions), upon the earlier of:

(i) the date falling ten Business Days after the date on which the Redemption and Purchase Conditions are met or redemption of the Notes is otherwise permitted pursuant to Condition 8(*c*) (unless on such tenth Business Day the Redemption and Purchase Conditions are again not met or the redemption of the Notes on such date would result in the Redemption and Purchase Conditions ceasing to be met (in each case save for the Redemption and Purchase Condition at sub-paragraph (iv) of Condition 8(*b*) to the extent waived under Condition 8(*c*)), in which case the provisions of Condition 8(*b*) and this sub-paragraph (i) of this Condition 8(*d*) will apply *mutatis mutandis* to determine the rescheduled due date for redemption of the Notes); or

(ii) the date on which an Issuer Winding-Up occurs (insofar as such Issuer Winding-Up occurs prior to a Write Down Date).

The Issuer shall notify the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders no later than five Business Days prior to any such date set for redemption pursuant to (i) or (if reasonably practicable in the circumstances) (ii) above.

A certificate signed by two Directors confirming that: (i) the Redemption and Purchase Conditions are not met or would cease to be met if the proposed redemption or purchase were to be made; or (ii) the Redemption and Purchase Conditions are met and would continue to be met if the proposed redemption or purchase were to be made, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and shall be binding on all such persons. The Trustee shall be entitled to rely on such certificate absolutely without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(e) *Suspension of Redemption and Cancellation of Purchases Not a Default*

Notwithstanding any other provision in these Conditions or in the Trust Deed, the suspension of redemption of the Notes and any cancellation of any purchases of any Notes in accordance with Condition 8(*b*) and 8(*d*) shall not constitute a default or event of default on the part of the Issuer for any purpose and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed.

(f) *Redemption at the Option of the Issuer*

Provided that the Redemption and Purchase Conditions are met, the Issuer may, at its option, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders (which notice shall (save as provided in Condition 8(*o*) below) be irrevocable and shall specify the date fixed for redemption) redeem all (but not some only) of the Notes, on the First Call Date or on any Reset Date thereafter at their principal amount together with (to the extent that such interest has not been cancelled in accordance with these Conditions) any accrued and unpaid interest to (but excluding) the date of redemption.

(g) *Redemption, substitution or variation at the option of the Issuer due to a Tax Event*

Provided that (in the case of a redemption) the Redemption and Purchase Conditions and (in any case) the relevant preconditions to redemption, variation and substitution in Condition 8(k) are met, if a Tax Event has occurred and is continuing, then the Issuer may, at its option (without any requirement for the

consent or approval of the Noteholders), and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders (which notice shall (save as provided in Condition 8(*o*) below) be irrevocable and shall specify, as applicable, the date fixed for redemption or on which any variation or substitution is to become effective) either:

(i) redeem all (but not some only) of the Notes at any time at their principal amount, together with (to the extent that such interest has not been cancelled in accordance with these Conditions) any accrued and unpaid interest to (but excluding) the date of redemption; or

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

provided that:

(1) no such notice shall be given earlier than 90 days prior to the earliest date on which (A) (i) with respect to limb (a) of the definition of Tax Event, the Issuer would be obliged to pay such Additional Amounts; (ii) with respect to limb (b) of the definition of Tax Event, the Issuer ceases to be entitled to a deduction or its entitlement to a deduction is reduced; or (iii) with respect to limb (d) of the definition of Tax Event, the Issuer would not to a material extent be able to have losses or deductions set against the profits or gains in the manner set out therein, in each case were a payment in respect of the Notes then due; or (B)(i) with respect to limbs (c), (e) and (f) of the definition of Tax Event, such change in treatment is effective; or (ii) with respect to limb (g) of the definition of Tax Event, the relevant adverse tax consequence would arise or be suffered; and

(2) the Issuer shall also deliver to the Trustee an opinion from a nationally recognised law firm or other tax adviser in the applicable Relevant Jurisdiction experienced in such matters to the effect that the relevant requirement or circumstance referred to in sub-paragraph (1) applies or (where applicable) will apply on the next Interest Payment Date (save that such opinion need not provide any confirmation as to whether the Issuer could avoid the occurrence of the relevant Tax Event by taking measures reasonably available to it).

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

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

Provided that (in the case of a redemption) the Redemption and Purchase Conditions and (in any case) the relevant preconditions to redemption, variation and substitution in Condition 8(k) are met, if 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 the Issuer may, at its option (without any requirement for the consent or approval of the Noteholders), and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders (which notice shall (save as provided in Condition 8(*o*) below) be irrevocable and shall specify, as applicable, the date fixed for redemption or on which any variation or substitution is to become effective) either:

(i) redeem all (but not some only) of the Notes at any time at their principal amount, together with (to the extent that such interest has not been cancelled in accordance with these Conditions) any accrued and unpaid interest to (but excluding) the date of redemption; or

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

provided, however, that no such notice of redemption, substitution or variation shall be given more than 12 months following the occurrence of the relevant Capital Disqualification Event.

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

(i) *Redemption, substitution or variation at the option of the Issuer due to a Ratings Methodology Event*

Provided that (in the case of a redemption) the Redemption and Purchase Conditions and (in any case) the relevant preconditions to redemption, variation and substitution in Condition 8*(k)* are met, if a Ratings Methodology Event has occurred and is continuing or, as a result of a change in (or clarification to) the methodology of the Rating Agency (or in the interpretation of such methodology), a Ratings Methodology Event will occur within the forthcoming period of six months, then the Issuer may, at its option (without any requirement for the consent or approval of the Noteholders), and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders (which notice shall (save as provided in Condition 8(*o*) below) be irrevocable and shall specify, as applicable, the date fixed for redemption or on which any variation or substitution is to become effective) either:

(i) redeem all (but not some only) of the Notes at any time at their principal amount, together with (to the extent that such interest has not been cancelled in accordance with these Conditions) any accrued and unpaid interest to (but excluding) the date of redemption; or

(ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Rating Agency Compliant Securities and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 8(*k*) below and in the definitions of "Qualifying Securities" and "Rating Agency Compliant Securities") agree to such substitution or variation,

provided, however, that no such notice of redemption, substitution or variation shall be given more than 12 months following the occurrence of the relevant Ratings Methodology Event.

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

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

(i) Subject to Condition 8(*b*), the Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds as may be necessary) to give effect to the substitution or variation of the Notes for or into Qualifying Securities pursuant to Condition 8(*g*) or 8(*h*) above or Rating Agency Compliant Securities pursuant to Clause 8(*i*) above, provided that the Trustee shall not be obliged to co-operate in any such substitution or variation if the securities resulting from such substitution or variation, or the co-operation in 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 co-operate as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in this Condition 8.

(ii) The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of this Condition 8 and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual written notice pursuant to these Conditions or the Trust Deed of the occurrence of any event or circumstance to which this Condition 8 relates, it shall be entitled without liability to assume that no such event or circumstance exists or has arisen.

(k) *Preconditions to redemption, variation and substitution*

(i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 8(*g*), 8(*h*) or 8(*i*), the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that, as the case may be, the Issuer is entitled to redeem, vary or substitute the Notes on the grounds that a Tax Event, a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing as at the date of the certificate or, as the case may be (in the case of a Capital Disqualification Event or a Ratings Methodology Event) will occur within a period of six months and that it would have been reasonable for the Issuer to conclude, judged at the Issue Date, that the relevant Tax Event, Capital Disqualification Event or Ratings Methodology Event was unlikely to occur.

(ii) For the purposes of Condition 8(*k*)(i), each Noteholder, by acquiring and holding any Note, agrees and accepts that given the advisory nature of the EIOPA Advice Paper it was reasonable for the Issuer to conclude, judged at the Issue Date, that a Capital Disqualification Event was unlikely to occur as a result of the matters discussed at chapter 19 (*Comparison of own funds in insurance and banking sectors*) and chapter 20 (*Capital instruments only eligible as tier 1 up to 20 per cent. of total tier 1*) of the EIOPA Advice Paper.

(iii) The Issuer shall not be entitled to amend or otherwise vary the terms of the Notes or substitute the Notes unless it has notified the PRA in writing of its intention to do so not less than one month (or such other period as may be required by the PRA or the Relevant Rules at the relevant time) prior to the date on which such amendment, variation or substitution is to become effective and the Regulatory Clearance Condition has been satisfied in respect of such proposed amendment, variation or substitution.

A certificate signed by any two Directors to the Trustee confirming compliance with the relevant requirements set out above shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee, the Noteholders and all other interested parties. The Trustee shall be entitled to accept such certificate as sufficient evidence of such compliance and shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(l) *Compliance with stock exchange rules*

In connection with any substitution or variation of the Notes in accordance with Condition 8(*g*), 8(*h*) or 8(*i*), 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.

(m) *Purchases*

Provided that the Redemption and Purchase Conditions are met at the time of such purchase, the Issuer or any of the Issuer's Subsidiaries may purchase Notes in any manner and at any price. All Notes

purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or, at the option of the relevant purchaser, surrendered for cancellation to the Registrar.

(n) *Cancellations*

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

(o) *Notices Final*

Subject to and without prejudice to the Redemption and Purchase Conditions and to Condition 8(*d*), any notice of redemption as is referred to in this Condition 8 shall, except in the circumstances described in the following paragraph of this Condition 8(*o*), be irrevocable and on the redemption, variation or (as the case may be) substitution date specified in such notice, the Issuer shall be bound to redeem or, as the case may be, vary or substitute the Notes in accordance with the terms of the relevant Condition.

The Issuer may not give a notice of redemption, substitution or variation of the Notes pursuant to this Condition 8 if a Trigger Event has occurred. If a Trigger Event occurs after a notice of redemption, substitution or variation has been given by the Issuer but before the relevant redemption, substitution or (as the case may be) variation date, such notice of redemption, substitution or variation (as applicable) shall automatically be revoked and be null and void and the relevant redemption, substitution or variation (as applicable) shall not be made or effected and the Notes shall be written down in accordance with Condition 6.

9 Taxation

(a) *Payment without withholding*

All payments of principal and 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 a Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts in relation to 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 as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

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

(ii) *Lawful avoidance of withholding*: held by, or by a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Certificate is presented for payment; or

(iii) *Surrender more than 30 days after the Relevant Date*: where (in the case of an Interest Payment payable on redemption) the relevant Certificate representing such Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would

have been entitled to such Additional Amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days; or

(iv) *Combination*: where such withholding or deduction arises out of any combination of paragraphs (i) to (iii) above.

Notwithstanding any other provision of the Terms and Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

"**Relevant Date**" means (i) in respect of any payment other than a sum to be paid by the Issuer in an Issuer Winding-Up, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender, and (ii) in respect of a sum to be paid by the Issuer in an Issuer Winding-Up, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up (or, in the case of an administration, one day prior to the date on which any dividend is distributed).

(b) *Additional Amounts*

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or under any undertakings given in addition to, or in substitution for, this Condition 9 pursuant to the Trust Deed.

10 Prescription

Claims against the Issuer in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

11 Non-payment of principal when due

(a) *Proceedings for an Issuer Winding-Up*

The right to institute winding-up proceedings by the Trustee on behalf of the Noteholders in respect of the Issuer is limited to circumstances where a payment of principal in respect of the Notes by the Issuer under the Conditions or any provisions of the Trust Deed has become due and is not duly paid. No amount shall be due from the Issuer in circumstances where payment of principal could not be made in compliance with the Solvency Condition, after a Trigger Event has occurred, where payment cannot be made in compliance with the Redemption and Purchase Conditions or where redemption is suspended pursuant to Condition 8(d).

If default is made by the Issuer for a period of 14 days or more in the payment of principal due in respect of the Notes or any of them 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 (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction) institute proceedings for the winding-up of the Issuer.

Subject to Condition 6, in the event of an Issuer Winding-Up (whether or not instituted by the Trustee), 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 (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction) prove or claim in such Issuer Winding-Up, such claim being as provided in, and subordinated in the manner described in, Condition 3*(b)*, but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.

No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to this Condition 11*(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 no objection from, the PRA, which the Issuer shall confirm in writing to the Trustee and upon which the Trustee may rely conclusively without liability to any person.

(b) *Enforcement*

Without prejudice to Condition 11(*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 term or condition 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 any payment of damages awarded for breach of any obligations thereunder, but excluding any payments made 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 11(*b*) shall, however, prevent the Trustee or the Noteholders from pursuing the remedies to which they are entitled pursuant to Condition 11(*a*).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 11(*a*) or 11(*b*) above against the Issuer to enforce the terms of the Trust Deed or the Notes or to take any other action under or pursuant to the Trust Deed unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one quarter in principal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(d) *Right of Noteholders*

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer or to prove or claim in an Issuer Winding-Up unless the Trustee, having become so bound to proceed, is unable to do so or fails to do so within a reasonable period or, being able to prove or claim in such Issuer Winding-Up, fails to do so within a reasonable period and, in each case, such inability or failure shall be continuing, in which case the Noteholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 11.

(e) *Extent of Noteholders' remedy*

No remedy against the Issuer, other than as referred to in this Condition 11, 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.

12 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or other Transfer Agent (or any other place notice of which shall have been given in accordance with Condition 13) 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 (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13 Notices

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

14 Substitution of Issuer

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 3, 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 14) as a new principal debtor under the Trust Deed and the Notes, provided that:

(a) 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);

(b) (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 3 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 3(d), 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 11(a);

(c) 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);

(d) (without prejudice to the rights of reliance of the Trustee under Condition 14*(c)*) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;

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

(f) (without prejudice to the generality of Condition 14*(a)*) 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;

(g) 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 9 with the substitution for the references in that Condition and in the definitions of Relevant Jurisdiction, Tax Event and Tax Law Change to the Issuer's Territory of references to the Substituted Territory, whereupon the Trust Deed and the Notes will be read accordingly;

(h) 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

(i) 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 14 shall be subject to the Issuer having complied with the Regulatory Clearance Condition.

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 13.

15 Meetings of Noteholders, Modification, Waiver and Authorisation

(a) *Meetings of Noteholders*

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

representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed also provides that (i) a written resolution executed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding 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 holders of not less than 75 per cent. in principal 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 shall take effect as if it were an Extraordinary Resolution. A 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 required to be made in connection with the substitution or variation of the Notes pursuant to Condition 8(*g*), 8(*h*) or 8(*i*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer pursuant to Condition 14.

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

Without prejudice to Conditions 8(*g*), 8(*h*), 8(*i*) and 14, the Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed: (i) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (ii) which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated. For the avoidance of doubt, such power shall not extend to any such modification as mentioned in the proviso to paragraph 3 of Schedule 3 to the Trust Deed unless required for the substitution or variation of the Notes pursuant to Condition 8(*g*), 8(*h*) or 8(*i*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer pursuant to Condition 14.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

(d) *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 15 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be

notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

(e) *Notice to the PRA*

No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless the Issuer shall have first satisfied the Regulatory Clearance Condition.

16 Indemnification of the Trustee and its Contracting with the Issuer

(a) *Indemnification of the Trustee*

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer 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.

Nothing in the Trust Deed or these Conditions (including, without limitation, the provisions of Condition 2 or Condition 11*(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.

(b) *Trustee contracting with the Issuer*

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/or any Substituted Obligor 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 and/or any Substituted Obligor, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

(c) *Reports and certificates*

The Trust Deed provides that the Trustee may rely and act upon the advice, opinion or report of or any information obtained from any lawyer, valuer, 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 Substituted Obligor or any one or more Directors or any Substituted Obligor or any of their respective liquidators, administrators or other insolvency officials. The Trustee will not be responsible to anyone for any liability occasioned by so relying and acting. Any such advice, opinion, information or certificate may be sent or obtained by letter, 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 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 or other amounts by reason of Condition 3(*d*), 5, 6 or 8. Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with the foregoing.

(d) *Trustee may refrain from acting*

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

17 Further Issues

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

18 Governing Law

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

19 Rights of Third Parties

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

20 Defined Terms

In these Conditions:

"**Additional Amounts**" has the meaning given to it in Condition 9;

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

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

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

"**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;

"**Automatic Write Down**" means the irrevocable and automatic (without the need for the consent of Noteholders or the Trustee) reduction of the full principal amount of each Note to zero on a permanent basis,

the cancellation of all accrued and unpaid interest and any other amounts (if any) arising under or in connection with the Notes and/or the Trust Deed and the cancellation of the Notes on the Write Down Date;

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

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

a "**Capital Disqualification Event**" shall be deemed to have occurred if at any time, as a result of any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so) the whole or any part of the principal amount of the Notes is excluded from counting as Tier 1 Capital for the purposes of (i) the Issuer on a solo, group or consolidated basis or (ii) the Insurance Group on a 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);

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

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

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

"**Distributable Items**" means, subject as otherwise defined from time to time in the Relevant Rules, with respect to and as at any Interest Payment Date, without double-counting, an amount equal to:

(a) the Distributable Profits of the Issuer, calculated on an unconsolidated basis, as at the last day of the then most recently ended financial year of the Issuer; plus

(b) the interim retained earnings (if any) of the Issuer, calculated on an unconsolidated basis, for the period from the Issuer's then latest financial year end to (but excluding) such Interest Payment Date; less

(c) the interim net loss (if any) of the Issuer, calculated on an unconsolidated basis, for the period from the Issuer's then latest financial year end to (but excluding) such Interest Payment Date;

"**Distributable Profits**" has the meaning given to such term under section 736 of the Companies Act (or, in the case of any Substituted Obligor which is not a United Kingdom company, the relevant provision under the law of the jurisdiction of incorporation of the Substituted Obligor) or (in each case) any equivalent or replacement provision;

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

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

"**EIOPA Advice Paper**" means the paper published by the European Insurance and Occupational Pensions Authority on 28 February 2018 entitled "*EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation*" (EIOPA-BoS-18/075);

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

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

"**First Call Date**" means 12 September 2028;

"**Group Insurance Undertaking**" means an insurance undertaking whose data is included for the purposes of the calculation of the Solvency Capital Requirement of the Insurance Group pursuant to the Relevant Rules;

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

"**Initial Fixed Rate Interest Period**" means the period from (and including) the Issue Date to (but excluding) the First Call Date;

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

(a) the winding-up of any Group Insurance Undertaking; or

(b) the appointment of an administrator of any Group Insurance Undertaking,

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 Group Insurance Undertaking may or will not be met in full;

"**Insurance Group**" means the Insurance Group Parent Entity and its Subsidiaries;

"**Insurance Group Parent Entity**" 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);

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

"**Interest Payment**" means, in respect of any Interest Payment Date, the amount of interest which is (or would, but for cancellation in accordance with these Conditions, be) due and payable on such Interest Payment Date;

"**Interest Payment Date**" means 12 March and 12 September in each year, commencing on 12 March 2019;

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

"**Interest Rate**" means the Initial Fixed Interest Rate and/or the applicable Reset Rate of Interest, as the case may be;

"**Issue Date**" means 12 September 2018;

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

"**Issuer's Territory**" has the meaning given to it in Condition 14;

"**Issuer Winding-Up**" means:

(a) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except a solvent winding-up solely for the purpose of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution and do not provide that the Notes or any amount in respect thereof shall thereby become payable); or

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

"**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;

"**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, all in such manner as the Directors may determine;

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

"**Mandatory Interest Cancellation Event**" has the meaning given to such term in Condition 5(*b*);

"**Margin**" means 5.419 per cent.;

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

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

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

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

"**Notional Preference Shares**" has the meaning given to such term in Condition 3(*b*);

"**Own Fund Items**" means any own fund item referred to in the Relevant Rules;

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

"**Policyholder Claims**" means claims of policyholders or beneficiaries under contracts of insurance in a winding-up, liquidation or administration of a Group Insurance Undertaking to the extent that those claims relate to any debt to which the Group 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;

"**PRA**" 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, the Insurance Group and/or the Insurance Group Parent Entity;

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

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

(a) 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 of international standing or independent financial adviser of international standing, and provided that a certification to such effect (including as to the consultation with the independent investment bank or independent financial adviser and in respect of the matters specified in (b) below) signed by two Directors shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely absolutely without liability to any person

and without any obligation to verify or investigate the accuracy thereof) prior to the issue of the relevant securities);

(b) (subject to (a) above) shall (1) contain terms which comply with the then current requirements of the Relevant Rules in relation to Tier 1 Capital; (2) bear the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (3) rank *pari passu* with the ranking of the Notes; (4) preserve the obligations of (including obligations arising from the exercise of any rights of) the Issuer as to redemption of the Notes, including as to the timing of, and amounts payable upon redemption of the Notes and provided that such Qualifying Securities may not be redeemed by the Issuer prior to the First Call Date except in circumstances analogous to those referred to in Condition 8(*g*), 8(*h*) or 8(*i*) of the Notes; (5) contain terms providing for the cancellation and/or suspension of payments of interest or principal (including, without limitation, automatic write down of principal or conversion of principal into equity) only if such terms are not materially less favourable to an investor than the cancellation and/or suspension provisions, respectively, contained in the terms of the Notes and (6) preserve any existing rights under these Conditions to any accrued interest which has accrued to Noteholders but not been paid (but without prejudice to any right of the Issuer subsequently to cancel any such rights so preserved in accordance with the terms of the Qualifying Securities); and

(c) are listed or admitted to trading on Euronext Dublin's regulated market (for the purposes of Directive 2014/65/EU) or 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;

"**Rating Agency**" means each of Fitch Ratings Limited ("**Fitch**"), Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and Moody's Investors Service Limited ("**Moody's**") or, in each case, any affiliate thereof or successor thereto;

"**Rating Agency Compliant Securities**" means securities which are (i) Qualifying Securities and (ii) assigned substantially the same "equity credit" (or such other nomenclature as may be used by a Rating Agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer's senior obligations in terms of either leverage or total capital) or, at the absolute discretion of the Issuer, a lower "equity credit" (provided such "equity credit" is still higher than the "equity credit" assigned to the Notes immediately after the occurrence of the Ratings Methodology Event) as that which was first assigned by the relevant Rating Agency or its predecessor to the Notes (whether on or around the Issue Date or at any time subsequent thereto) and provided that a certification to such effect signed by two Directors shall have been delivered to the Trustee prior to the issue or, as appropriate, variation of the relevant securities (upon which the Trustee shall be entitled to rely absolutely without liability to any person and without any obligation to verify or investigate the accuracy thereof);

a "**Ratings Methodology Event**" will be deemed to occur if at any time there occurs a change in (or clarification to) the methodology of any Rating Agency (or in the interpretation of such methodology) as a result of which the "equity credit" (or such other nomenclature as may be used by the relevant Rating Agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer's senior obligations in terms of either leverage or total capital) assigned by the relevant Rating Agency to the Notes is, as notified by the relevant Rating Agency to the Issuer or as published by the relevant Rating Agency, reduced when compared to the "equity credit" first assigned by the relevant Rating Agency or its predecessor to the Notes (whether on or around the Issue Date or at any time subsequent thereto);

"**Record Date**" has the meaning given to such term in Condition 7(*a*);

"**Redemption and Purchase Conditions**" has the meaning given to such term in Condition 8(*b*);

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

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

“**Regulatory Clearance Condition**” means, in respect of any proposed act on the part of the Issuer, the PRA having approved, granted permission for, consented to, or provided a non-objection to and having not withdrawn its approval, permission or consent to, such act (in any case only if and to the extent such approval, permission, consent or non-objection is required by the PRA, the Relevant Rules or any other applicable rules of the PRA at the relevant time);

“**Relevant Date**” has the meaning given in Condition 9(*a*);

“**Relevant Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject to tax in respect of payments made by it of principal and/or interest on the Notes;

“**Relevant Rules**” means, at any time, any legislation, rules or regulations (whether having the force of law or otherwise) then applying to the Issuer, the Insurance Group Parent Entity or the Insurance Group relating to own funds, capital resources, capital requirements, financial adequacy requirements or other prudential matters (including, but not limited to, the characteristics, features or criteria of any of the foregoing) and without limitation to the foregoing, includes (to the extent then applying as aforesaid) Solvency II and any legislation, rules or regulations of the PRA relating to such matters; and references in these Conditions to any matter, action or condition being required or permitted by, or in accordance with, the Relevant Rules shall be construed in the context of the Relevant Rules as they apply to Tier 1 Capital and on the basis that the Notes are intended to continue to have the characteristics of Tier 1 Capital under the Relevant Rules notwithstanding the occurrence of a Capital Disqualification Event;

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

“**Reset Determination Date**” means, in respect of a Reset Period, the second Business Day prior to the first day of such Reset Period;

“**Reset Period**” means the period from and including the First Call Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date;

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

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

“**Reset Reference Rate**” means in respect of a Reset Period, the gross redemption yield (as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 5, Section One: Price/Yield Formulae “Conventional Gilts”; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date (published 8 June 1998, as amended or updated from time to time) or if such basis is no longer in customary market usage at such time, in accordance with generally accepted market practice at such time, on a semi-annual compounding basis (rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for the purpose of determining the gross redemption yield being the arithmetic average (rounded (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the Reset Determination Date in respect of such Reset Period on a dealing basis for settlement on the next following dealing day in London. Such quotations shall be obtained by or on behalf of the Issuer and provided to the Agent Bank. If at least four quotations are provided, the Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the

lowest). If only two or three quotations are provided, the Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Rate will be determined by reference to the rounded quotation provided. If no quotations are provided, the Reset Reference Rate will be the previous Reset Reference Rate or (in the case of the first Reset Period) 1.456 per cent., where:

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

"**Senior Creditors**" means creditors of the Issuer:

(a) who are unsubordinated creditors including all policyholders (if any) or beneficiaries under contracts of insurance of the Issuer (for the avoidance of doubt, the claims of such policyholders and beneficiaries shall include all amounts to which such policyholders or beneficiaries 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 or beneficiaries may have), if any;

(b) whose claims 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) upon issue or 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 3 Capital;

(c) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of the Issuer but not further or otherwise; or

(d) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the holders of the Notes in a winding up or administration of the Issuer occurring prior to a Trigger Event;

"**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 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) (as amended);

"**Solvency Capital Requirement**" means the solvency capital requirement of the Issuer or the group solvency capital requirement of the Insurance Group referred to in the Relevant Rules (howsoever described or defined in the Relevant Rules) or any other solvency capital requirement, group solvency capital requirement or any other equivalent capital requirement relating to the Issuer or the Insurance Group (other than the Minimum Capital Requirement) howsoever described in the Relevant Rules;

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

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

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

"**Substituted Obligor**" has the meaning given in Condition 14;

"**Substituted Territory**" has the meaning given to it in Condition 14;

"**successor in business**" has the meaning, with respect to the Issuer, given in the Trust Deed;

a "**Tax Event**" is deemed to have occurred if as a result of a Tax Law Change:

(a) in making any Interest Payments on the Notes, the Issuer will or would on the next Interest Payment Date be required to pay Additional Amounts; or

(b) the Issuer is no longer entitled to claim a deduction in respect of any Interest Payments in respect of the Notes in computing its taxation liabilities or the amount of such deduction is materially reduced in the Relevant Jurisdiction; or

(c) the Notes are prevented from being treated as loan relationships for United Kingdom tax purposes; or

(d) in respect of an Interest Payment, the Issuer would not to any material extent be able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Notes or any similar system or systems having like effect as may from time to time exist); or

(e) the Notes or any part thereof are treated as a derivative or an embedded derivative for United Kingdom tax purposes;

(f) the Issuer would be subject to a tax liability in a Relevant Jurisdiction if a Trigger Event or an Automatic Write Down were to occur or such Trigger Event or Automatic Write Down would result in a deemed receipt of income or profit for the Issuer that would be subject to tax in a relevant jurisdiction; or

(g) the Issuer suffers or would suffer any other material adverse tax consequence in connection with the Notes in a Relevant Jurisdiction,

and, in any such case the Issuer could not avoid the foregoing by taking measures reasonably available to it;

"**Tax Law Change**" means a change in (or proposed change in) or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment (x) (subject to (y)) becomes (or will become) effective on or after the Issue Date, or (y) in the case of a change in law, is (or will be) enacted on or after the Issue Date;

"**Tier 1 Capital**" has the meaning given to such term by the Relevant Rules from time to time;

"**Tier 2 Capital**" has the meaning given to such term by the Relevant Rules from time to time;

"**Tier 3 Capital**" has the meaning given to such term by the Relevant Rules from time to time;

"**Tier 1 Own Funds**" means subordinated notes, ordinary shares or any other share capital of any class which constitute Tier 1 Capital for the purposes of the Issuer or the Insurance Group, whether on a solo, group or consolidated basis;

"**Transfer Agent**" has the meaning ascribed to it in the preamble to the Conditions;

a "**Trigger Event**" shall occur if at any time:

(a) the amount of Own Fund Items eligible to cover the Solvency Capital Requirement is equal to or less than 75 per cent. of the Solvency Capital Requirement;

(b) the amount of Own Fund Items eligible to cover the Minimum Capital Requirement is equal to or less than the Minimum Capital Requirement; or

(c) a breach of the Solvency Capital Requirement has occurred and such breach has not been remedied within a period of three months from the date on which the breach was first observed;

"**Trigger Event Notice**" means the notice referred to as such in Condition 6 which shall be given by the Issuer to the Noteholders, in accordance with Condition 13, the Trustee, the Registrar, the Principal Paying Agent and the PRA, and which shall state with reasonable detail the nature of the relevant Trigger Event, the basis of its calculation and the relevant Write Down Date (which may be a date prior to or following the date of the Trigger Event Notice);

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

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

"**Write Down Date**" has the meaning given to it in Condition 6.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

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

1 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer 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.

2 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.

3 Payments

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

4 Meetings

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

5 Notices

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

6 Exchange

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

In such circumstances, the Issuer will cause sufficient Certificates to be executed and delivered to the Registrar 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.

7 Transfer

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

8 Trustee's Powers

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

9 Enforcement

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

10 Electronic Consent and Written Resolution

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

(a) approval of a resolution proposed by the Issuer 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 (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

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer 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*) to 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.

In March 2018, the Group executed a £12 billion reinsurance agreement with PACL. Upon completion of the Part VII Transfer of this block of annuitants which is expected to occur in 2019, the number of the Group's policyholders will increase from over 380,000 to over 770,000.

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 35.5 per cent. interest in RHUK (the "**Blackstone Shareholder**");
- Cambourne Life Investment Pte Ltd, a fund managed by GIC, holds a 35.5 per cent. interest in RHUK (the "**GIC Shareholder**"); and
- MM Rothesay Holdco US LLC, a fund managed by MassMutual, holds a 24.9 per cent. interest in RHUK (the "**MassMutual Shareholder**"),

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

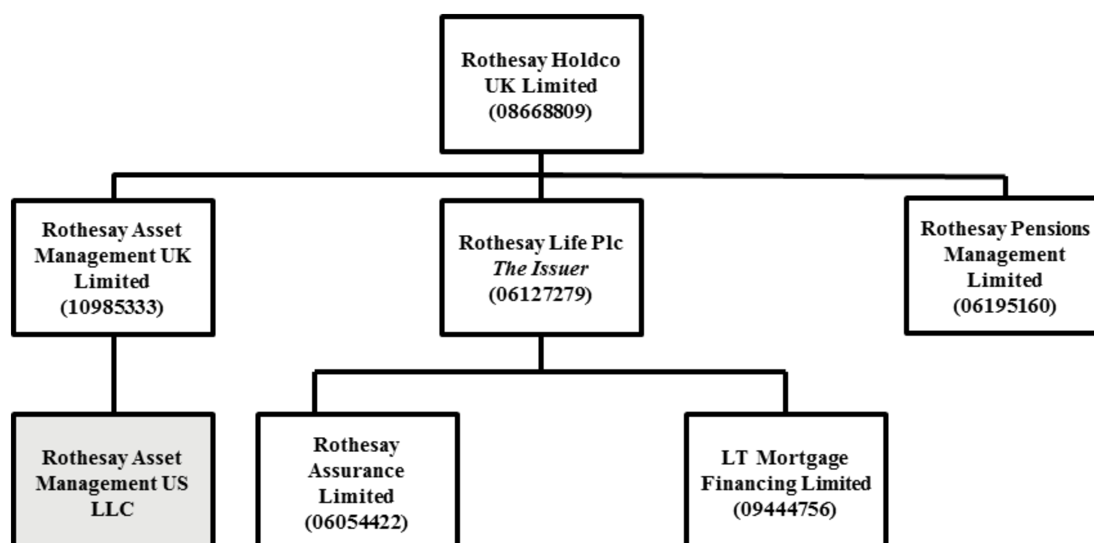
The remaining shares are held by the management of the Group and the Employee Benefit Trust.

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 current organisational structure of the Group and the other subsidiaries within the Group's corporate structure is outlined below[2]:



[2] Rothesay Asssurance Limited and LT Mortgage Financing Limited are currently dormant.

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.

The Issuer is the main operating subsidiary of the Group. Its main role is to write all of the Group's new business. On 3 October 2016, the PRA granted an application to cancel the permissions of Rothesay Assurance Limited ("**RAL**"). As it is dormant, the Group has begun proceedings to voluntarily liquidate RAL.

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 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**") has, since its incorporation, been a dormant entity within the Group. Since LTMF was incorporated, it has not held assets or liabilities, nor has it entered into commitments which may result in it holding any assets or liabilities. It is the intention of the Group that LTMF may, in the future, become an operating subsidiary within the Group that funds and/or originates equity release mortgages. LTMF was incorporated as a private limited company in England and Wales on 17 February 2015, with registered number 09444756.

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 2017, the Group and its subsidiaries had 179 employees, excluding the Non-Executive Directors.

1.4 Summary of Group entities

Name of entity[3]	**Shareholders**[4]	**Country of incorporation**	**Nature of business**
Rothesay HoldCo UK Ltd	BTO Rothesay Holdings L.P. (Blackstone Tactical Opportunities Advisors LLC): 35.5% Cambourne Life Investment Pte Ltd (GIC Special Investments Pte Ltd): 35.5% MM Rothesay Holdco US LLC (Massachusetts Mutual Life Insurance Company): 24.9% Management and Employee Benefit Trust: 4.1%	England and Wales	Holding company

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

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

Name of entity[3]	Shareholders[4]	Country of incorporation	Nature of business
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
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 (dormant)

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.

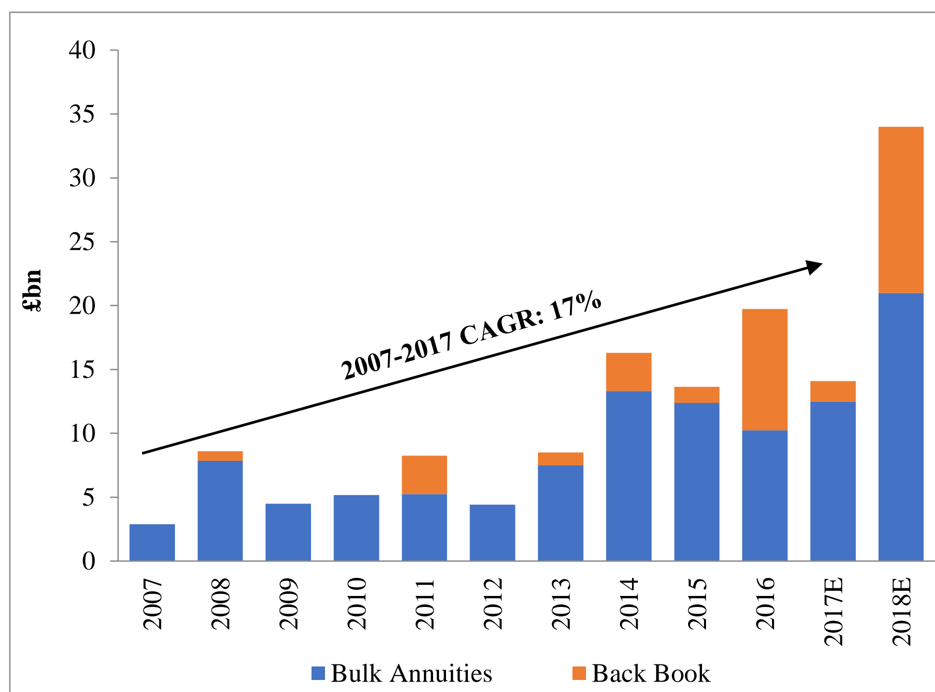
2.1 Market performance and composition

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 would not have met its return thresholds. However, the outlook for the bulk annuity market going into the second half of 2018 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 £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. The £12 billion transaction with Prudential announced on 14 March 2018 is an example of such a transaction.

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

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 £2.3 trillion at the end of 2017[5], only £86 billion had been transferred from 2007 to 2017, according to KPMG.

Since 2006, corporate scheme sponsors paid over £165 billion in special contributions into UK defined benefit schemes[6], the number of open schemes dropped by 31 percentage points from 43 per cent. in 2006 to 12 per cent. in 2017[7] 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 18.8 percentage points from 22.6 per cent. in 2006 to 41.4 per cent. in 2017.[8]

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

[5] *Source: The Pensions Regulator Purple Book 2017.*

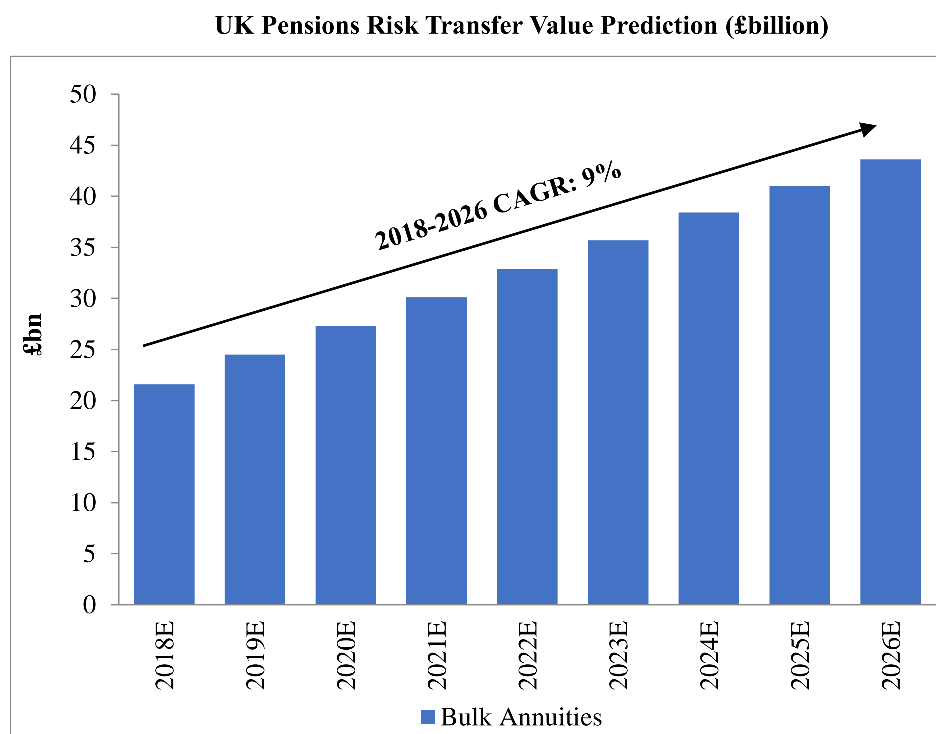
[6] *Source: MQ5, Investment by Insurance Companies, Pension Funds and Trusts, Office for National Statistics.*

[7] *Source: The Pensions Regulator Purple Book 2017.*

[8] *Source: The Pensions Regulator Purple Book 2017.*

plan contributions and yield curve/asset returns in line with expectations plus continued conversation rate around 3 per cent.

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) 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 defined benefit insurance market

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 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 the Group's product range may fall.

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 and counterparty 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, following the Part VII transfer in relation to the PACL Reinsurance Transaction, which is expected to occur in 2019, the number of the Group's policyholders will increase from over 380,000 to over 770,000.

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 2015 to 31 December 2017,[9] including acquisitions and reinsurance transactions, but excluding longevity reinsurance transactions.

Summary of Business Written by the Issuer

	2015 (£m)	2016 (£m)	2017 (£m)
Group pension bulk annuities	2,335	21	978
Assumed reinsurance premiums	1,157	6,589	206
Total	3,492	6,610	1,184

3.6 **Growth in new business volumes**

The Group achieved unaudited new business volumes of £12.4 billion[10] for the half year ended 30 June 2018 and audited business volumes of £1.2 billion for the 2017 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 2018, was £40.2 billion.[11]

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

[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 2015 or after 31 December 2017.

[10] The calculation of new business volumes includes the £12 billion reinsurance transaction with PACL and the £170 million buy-out transaction in relation to the Toshiba Pension and Assurance Scheme.

[11] Figures up to and including the financial year ended 31 December 2017 are audited. Figures for the half year ended 30 June 2018 are unaudited.

Year	Cumulative New Business		
	Buy-in and Buy-out Transactions (£bn)	New business from acquisitions and legacy back books (£bn)	Total (£bn)
2017	14.1	13.7	27.8
HY 2018	14.3	25.9	40.2

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[12]	£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
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

[12] 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

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

3.8 Acquisition of annuity portfolio from Prudential

On 14 March 2018, Prudential announced the sale of £12 billion of its annuity portfolio to the Issuer, the largest transaction of its type in the UK and taking the Group's assets under management to £37 billion. The transaction is structured initially as a reinsurance contract and covers over 400,000 policyholders who will remain customers of PACL and continue to be serviced by PACL until the effective date of a Part VII transfer.

Capital support for the transaction has been provided by the Shareholders with £380 million of new equity being provided. In addition, the Group has borrowed £500 million from a syndicate of third party banks. The new equity and the proceeds from the loan have been injected into the Issuer as equity. The £500 million syndicated loan agreement includes mandatory and voluntary early prepayment provisions, allowing the Group to reduce the outstanding amount of the loan.

After allowing for the re-calculation of transitional solvency relief, solvency coverage was estimated to be 147 per cent. at the Group as at 14 March 2018 and 166 per cent. at the Issuer. Solvency at the Issuer level is higher than at Group level because the bank loans do not count as solvency capital for the Group.

3.9 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 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.

3.10 Investment management

3.10.1 Asset and liability management

As at 30 June 2018, the Group had unaudited assets under management of £36.7 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.

Given the size of the Group's investment portfolio, the Group does have a modest holding of highly rated corporate bonds.

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 2017, 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**: 25 per cent. of the Group's portfolio was invested in lending against property or other collateral. During 2017 the Group has increased the funding of

equity release mortgages significantly, generating £519 million of new volume for the year through a combination of strategic partnerships with various originators and distributors as well as the purchase of in-force blocks;

- **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**: 6 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;
- **cash**: 4 per cent. of the Group's portfolio was invested in immediately realisable cash investments, including overnight cash funds; and
- **other assets**: 12 per cent. of the Group's portfolio was invested in other assets, including universities, non-profits, commercial real estate assets and fixed income instruments. This includes a portfolio of corporate bonds which is managed by M&G.

The Issuer has not yet fully invested the up-front premium received from Prudential and as a result currently has excess gilts and other low risk government securities relative to the long term target asset mix.

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 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 defaults in relation to any of its assets during 2017 or the first half of 2018.

The composition of the Group's investment portfolio as at 31 December 2017 is set out in the table below:

Investment Assets as at 31 December 2017

	2017(%)
Government and supranational bonds	43
Secured residential lending (ground rents, equity release mortgages, covered bonds and social housing)	25
Other secured lending (tri-party repo, bilateral arrangements and total return swaps)	10
Infrastructure (transportation and utilities)	6
Cash (UCIT funds)	4
Other (universities, non-profit, commercial real estate and negative basis)	12

Although the PACL transaction has materially increased assets under management, the overall unaudited asset composition as at 30 June 2018 was similar to 31 December 2017, albeit that the Issuer's holding of corporate bonds and government backed securities was moderately higher in percentage terms at 30 June 2018.

3.10.2 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.

3.11 Risk management

3.11.1 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 2017, 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**"). During 2017, several areas of the RMF have been enhanced to further strengthen the Group's risk management. These include liquidity risk management and the management of non-financial risks such as model risk and outsourcing risk.

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.

3.11.2 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.

3.11.3 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).

3.11.4 Risk appetite quantification and limit framework

The risk limit 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.

3.11.5 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.

3.11.6 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.

3.11.7 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.

3.11.8 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.

3.11.9 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.

3.11.10 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.

3.11.11 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.

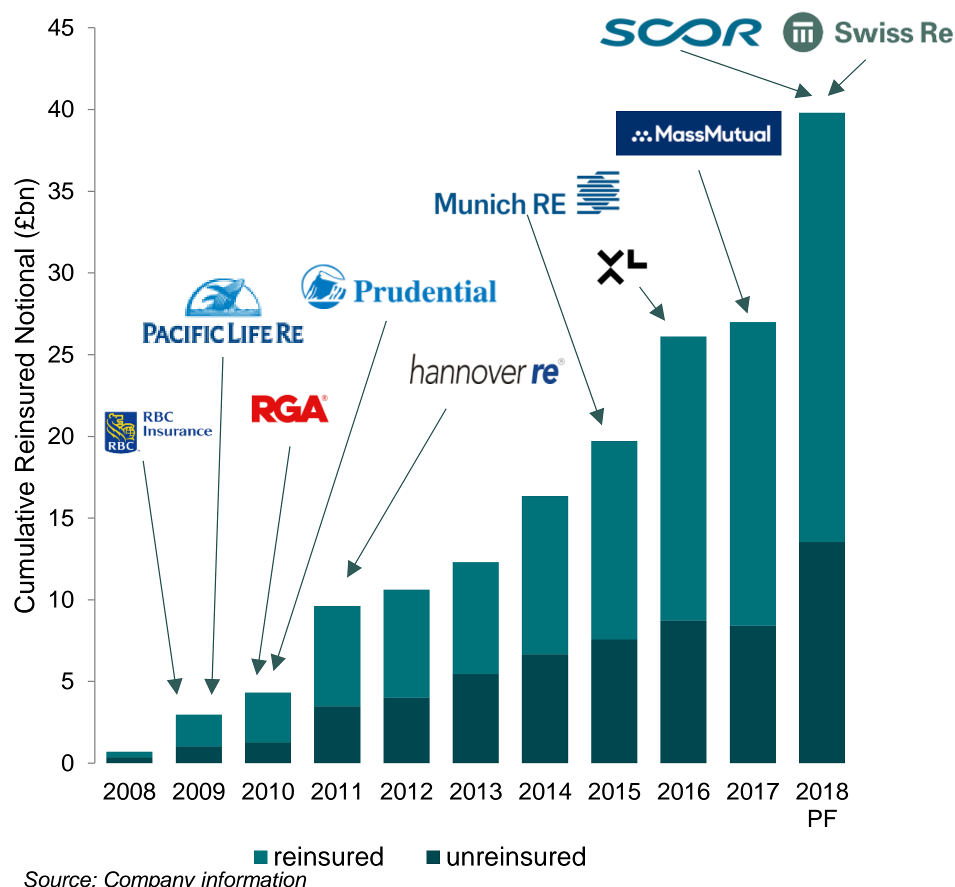
3.12 Reinsurance

The Group adopts a strategy of ceding longevity risks to reinsurers in the form of unfunded longevity swaps 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 Prudential Retirement Insurance and Annuity Company, Pacific Life Re, Hannover Re, RBC Insurance, Reinsurance Group of America, SCOR, Swiss Re, and MassMutual.



Source: Company information

3.13 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 and in terms of management's policy for maintaining coverage, there is no formal target at the Group level, however, the Issuer aims 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 a prescribed basis 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 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 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.

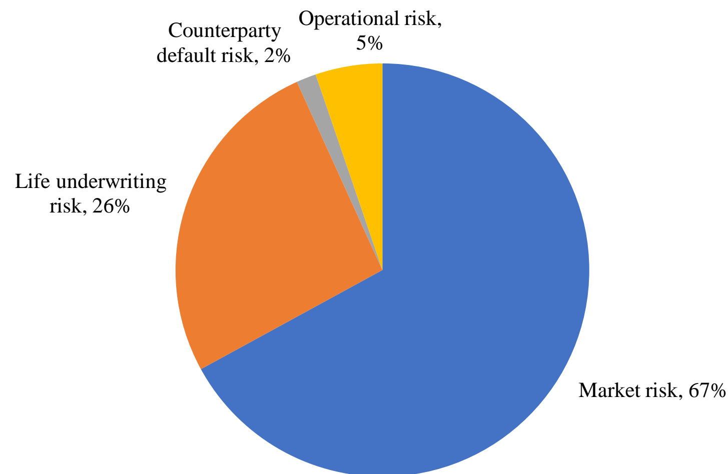
Assets in excess of that required to meet the technical provisions are known as "Own Funds".

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. The Group (and the Issuer) made such an application as at 31 December 2017 as transitional solvency relief must be re-calculated every two years. The impact of re-calculation was to increase the transitional from £908 million on 30 June 2016 when the transitional was last re-calculated to £1,009 million net of the associated impact of tax on Own Fund and allowing for amortisation on 1/16th of 1 January 2017.

Transitional solvency relief was then re-calculated on 14 March 2018 to allow for the reinsurance of annuities from Prudential (all of which was written before 1 January 2016).

The Group's (and the Issuer's) SCR is calculated using the standard formula. 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 Group (and the Issuer) is in the process of applying to use its own model for calculating the SCR in relation to credit and counterparty risk but intends using the standard formula for all other risks (a partial internal model). The Group (and the Issuer) is applying to use a partial internal model to ensure 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 partial internal model would allow the Group (and the Issuer) to restructure its holding of equity release mortgages to make them eligible for inclusion in the matching adjustment fund.



Following the PACL Reinsurance Transaction and after allowing for re-calculation of transitional solvency relief, solvency coverage was estimated to be 147 per cent. at the Group on 14 March 2018 and 166 per cent. at the Issuer. Solvency of the Issuer is higher than at Group because the bank loan facility of £500 million does not contribute to the solvency capital of the Group.

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 2017 was the same as RLP's MCR at £442 million. RLP's eligible own funds to cover the MCR were £2,268 million, which translates to an MCR Coverage of 513 per cent. The Group's unaudited MCR at 30 June 2018 was also the same as RLP's MCR at £673 million. RLP's unaudited eligible own funds to cover the MCR were £3,631 million, which translates to an unaudited MCR Coverage of 540 per cent..

4 Key Financial Information as at 31 December 2015, 31 December 2016 and 31 December 2017[13]

4.1 IFRS financial performance

Profit before tax for the financial year ended 31 December 2017 amounted to £330 million (FY 2016: £337 million; FY 2015: £356 million). RLP focuses on profit before tax as its primary measure of 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 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 2015, 2016 and 2017.

Key Line Items – RLP
Consolidated Statement of Comprehensive Income

Income statement highlights (£m)	FY2015 (£m)	FY2016 (£m)	FY2017 (£m)
Gross Premiums Written	3,764	6,877	1,447
Premiums Ceded to Reinsurers	(562)	(700)	(781)
Net Premiums Written	3,202	6,177	666
Investment Return	(115)	2,800	773
Total Revenue	3,087	8,977	1,439
Claims and Change in Insurance Contract Liabilities	(3,200)	(9,248)	(1,149)
Change in the Reinsurers' Share of Insurance Contract Liabilities and Reinsurance Recoveries	557	756	236
Net Claims and Change in Insurance Contract Liabilities	(2,642)	(8,492)	(913)
Operating Expenses	(77)	(110)	(146)
Finance Costs	(12)	(38)	(50)
Total Claims and Expenses	(89)	(148)	(196)
Profit Before Tax	356	337	330
Income Tax	(71)	(66)	(53)

[13] The financial information contained in this section is sourced from the financial statements of RLP for the financial years ended 31 December 2015, 31 December 2016 and 31 December 2017, which are incorporated by reference into this Prospectus.

Key Line Items – RLP
Consolidated Statement of Comprehensive Income

Income statement highlights (£m)	FY2015 (£m)	FY2016 (£m)	FY2017 (£m)
Profit After Tax	285	271	277

The Group's unaudited loss before tax for the first half of 2018 amounted to £257 million[14]. This was largely due to the new business strain incurred by the Group in acquiring the £12 billion block of annuities from Prudential. As the Group deploys the assets received as part of this transaction into higher yielding secure investments, management expects to generate profits from them.

Gross premiums written

RLP's new business premiums increased from £3.5 billion in 2015 to £6.6 billion in 2016 and were £1.2 billion in 2017. The Issuer achieved unaudited new business volumes of £12.4 billion[15] for the half year ended 30 June 2018.

This result differs from the gross premiums stated in the table above (an increase from £3,764 million in 2015 to £6,877 million in 2016, and £1,447 million in 2017) because the gross premiums written include regular premiums of £263 million in 2017 (FY 2016: £267 million; FY 2015: £272 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 £351 million in 2015 to £531 million in 2016 and further to £649 million in 2017, reflecting the continuing growth in the size of the business.

The net movement in the fair value of assets including realised gains represented an increase of £124 million in 2017 (FY 2016: an increase of £2,269 million; FY 2015: a loss of £466 million). A large part of the loss 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 £1,056 million in 2015, to £1,384 million in 2016 and further to £1,479 million in 2017. The gross change in insurance contract liabilities resulted in a loss of £2,143 million in 2015, a loss of £7,864 million in 2016 and a profit of £330 million in 2017.

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.

[14] The loss 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 2017.

[15] The calculation of new business volumes includes the £12 billion reinsurance transaction with PACL and the £170 million buy-out transaction in relation to the Toshiba Pension and Assurance Scheme.

RLP's reinsurance recoveries increased during the period from 2015 to 2017, with £531 million for the 2015 financial year, £593 million for the 2016 financial year and £736 million for the 2017 financial year. For the change in the value of RLP's reinsurance assets, during the full 2015 financial year a profit of £26 million, during the full 2016 financial year a profit of £163 million and during the full 2017 financial year a loss of £500 million was recorded.

Assets under management

Assets under management as at 31 December 2017 were £24.1 billion, representing an increase from £23.8 billion as at 31 December 2016 and £15.4 billion as at 31 December 2015. Such increase is largely a result of new business offset by interest rate movements. These figures are derived from the consolidated statement of financial position of RLP for the full financial years of 2015, 2016 and 2017, each adjusted for reinsurance, derivatives and collateralised financing, as shown in the table below.

Assets Under Management

(£m)	**FY2015 (£m)**	**FY2016 (£m)**	**FY2017 (£m)**
Total assets	25,508	39,724	38,266
less reinsurance assets	(274)	(437)	(168)
less payables and financial liabilities	(9,878)	(15,527)	(13,960)
Assets under management	15,356	23,760	24,138

Following the PACL transaction, the Group's unaudited assets under management increased to £37 billion.

4.2 Market consistent embedded value

RHUK's supplementary financial statements are prepared on a market consistent embedded value ("**MCEV**") basis for its 2015, 2016 and 2017 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 2015, 31 December 2016 and 31 December 2017

In accordance with the MCEV Principles summarised above, RLP's MCEV as at 31 December 2015, 31 December 2016 and 31 December 2017 was as follows:

Market Consistent Embedded Value

(£m)	FY2015 (£m)	FY2016 (£m)	FY2017 (£m)
Adjusted net worth	1,370	2,093	2,298
Present value of future profits	578	899	826
Cost of capital	(75)	(102)	(128)
Cost of non-hedgeable risks	(68)	(98)	(92)
Value of in-force business	435	699	606
Sub-debt	(358)	(358)	(703)
MCEV of RLP	1,447[16]	2,434[17]	2,201[18]

[16] The MCEV for the Group as at 31 December 2015 was £1,445 million.

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

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

The unaudited MCEV of the Group as at 30 June 2018 was £3.2 billion.

4.3 Group consolidated capital

The amount of outstanding borrowings at 31 December 2017 include £100 million of subordinated floating rate perpetual callable loan notes, £250 million subordinated loan notes and £300 million of floating 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. The notes have a carrying value of £100 million and a fair value of £95 million (31 December 2016: £100 million; 31 December 2015: £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 2017 the notes have a carrying value of £249 million (31 December 2016: £249 million; 31 December 2015: £249 million) which is calculated based on an amortised cost basis, and a fair value of £303 million (31 December 2016: £258 million; 31 December 2015: £258 million), as determined by traded levels. The notes were issued in the public debt markets.

On 19 September 2017, RLP issued £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 2017 the notes have a carrying value of £298 million and a fair value of £305 million.

For the year ended 31 December 2017, an interest expense of £36 million (31 December 2016: £30 million; 31 December 2015: £13 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)	FY2015 (£m)	FY2016 (£m)	FY2017 (£m)
Third party syndicated loan	–	238	–
Affiliate subordinated loan	100	100	–
Subordinated loans from participating interest	–	–	398
Subordinated loan notes	249	249	249

Group Borrowings

(£m)	FY2015 (£m)	FY2016 (£m)	FY2017 (£m)
Total borrowed	349	587	647

Additionally, in March 2018, RHUK signed a £500 million bank loan facility with a syndicate of third party banks. The £500 million was injected into RLP as equity and does contribute to RLP's solvency and liquidity position during the implementation of the PACL transaction but does not impact the Group's solvency position.

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

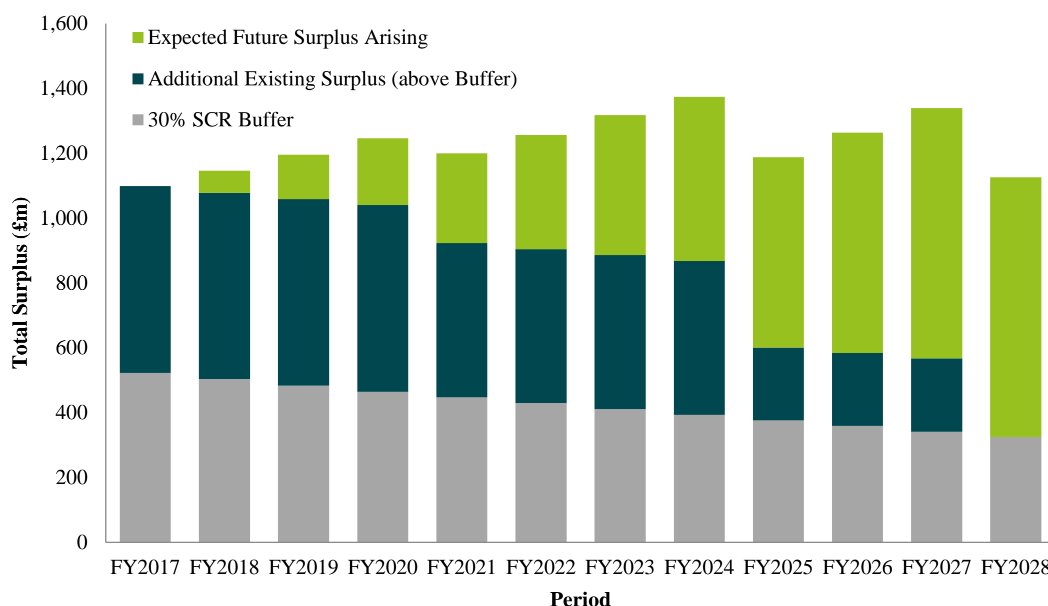
Management considers that the Group's approach to balance sheet management should result in stable projected cash flows from its in-force book if and to the extent that the best estimate is realised and any margins and capital requirement held under the Pillar 1 capital requirements unwind and are released, 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 2028 as at 31 December 2017, at which point the Group's cumulative surplus should exceed £1.1 billion of capital 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.

The existing free surplus as at 31 December 2017 was £1.1 billion. The annual expected post-tax cash flow before interest from the Group's in-force book is expected to amount to approximately £113 million in 2018 and is expected to increase to approximately £119 million over the following 10 years. Including expected interest payments lowers these expected cash flow numbers to approximately £68 million in 2018 and to approximately £103 million in 2028.

As at 31 December 2017, the annual expected post-tax cash flow is expected to cover future annual interest payments by at least approximately 2.5 times until 2028, with no further interest payments expected to be outstanding after that period. As at 31 December 2017, the aggregate free surplus cash until and including 2028 is expected to cover outstanding debt and expected future interest payments by approximately 2.1 times, which implies repayment of all outstanding debt and servicing all expected future interest incurred.

While no new business is assumed in the projections below, writing £1 billion of new premiums would be expected to require approximately £20 million to £40 million of capital to support the assumed liabilities in accordance with Rothesay Life's capital management framework.



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 2018 or other changes during the half year ended on 30 June 2018. 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 Prospectus, will be redeemed in 2022;

(iii) the publicly traded debt of the Issuer, as detailed in the financial statements contained in this Prospectus, will mature and be repaid in 2025;

(iv) the debt granted by a participating interest to the Issuer, as detailed in the financial statements contained in this Prospectus, 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. The projections do therefore not allow for any surplus arising from the PACL Reinsurance Transaction or any capital contributions or debt issuances after 31 December 2017.

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 2017. For more details see the section headed *"Important Information – Cautionary note regarding forward-looking statements"*.

4.5 **Economic variances**

The impact of market conditions and demographic experience on actual returns can be measured by the economic variance and demographic experience variance components of IFRS profits and losses.

The Group and RLP have historically made relatively small profits as a result of such changes. However in 2016, RLP made gains of £80 million from changes in market conditions, namely movements in interest rates and credit spreads (FY 2015: £4 million loss and FY2017: £14 million gain). Immediately post-the national referendum in June 2016 to decide on the United Kingdom's membership of the European Union, the Group began to hedge more dynamically to manage the balance sheet on both an IFRS and solvency basis. As the solvency balance sheet is more sensitive to interest rates than the IFRS balance sheet, IFRS profits increased as a result of falls in interest rates. As rates subsequently rose, the Group gradually returned to hedging the IFRS balance sheet. In addition, although the Group continues to mitigate credit risk where possible, the size of the balance sheet now means that the Group retains a holding of corporate bonds. As a result, RLP made a small profit from the rise in corporate bond prices.

The Issuer has achieved a result of less than 10 per cent. of pre-tax profits being attributable to such variances (averaged across the 2015 to 2017 financial years) and less than 2 per cent. if the economic variance of £80 million in 2016 is excluded. Management considers that this result reflects the relatively low impact that economic and demographic variances have on the profitability of the Issuer's business.

The table below identifies the economic and demographic variances of the profits before tax ("**PBT**") for RLP.

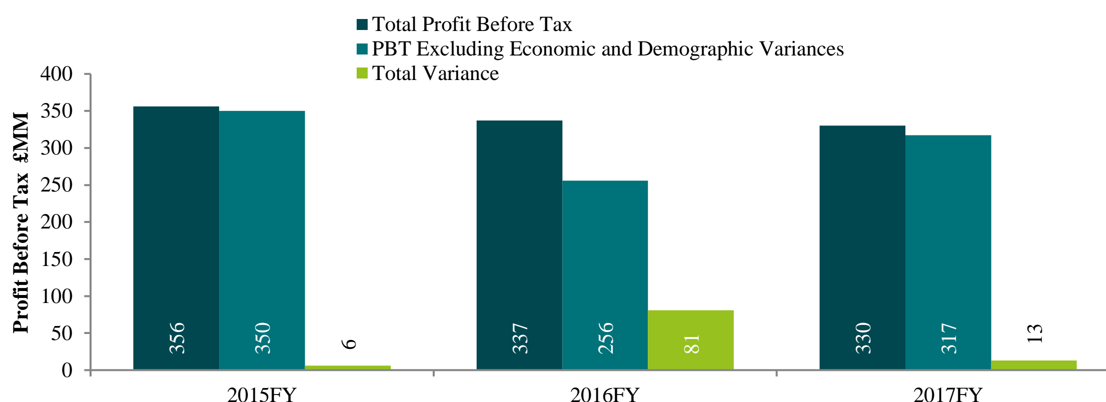
RLP Economic and Demographic Variances

	FY2015	FY2016	FY2017
Economic Variance (£m of PBT)	(4)	80	14
Demographic Variance (£m of PBT)	10	1	(1)

Note that demographic variances are as compared to best estimate assumptions.

The diagram below identifies the total PBT for the Issuer excluding economic and demographic variances, and the total variances.

RLP Total Profit Before Tax



4.6 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 2017	**Change in assumptions**	**(Decrease)/ increase in net liabilities**	**Increase/ (decrease) on PBT**	**Impact on equity**
		(£m)	**(£m)**	**(£m)**
Annuitant mortality	+5% qx	(104)	104	84
Annuitant mortality	-5% qx	109	(109)	(88)
Interest rate	+100bps	(2,723)	(25)	(20)
Interest rate	-100bps	3,476	343	277
Inflation	+100bps	1,157	65	52
Inflation	-100bps	(1,110)	85	69
Credit default assumption	+10bps	(114)	(112)	(90)
Credit default assumption	-10bps	117	111	90
Expenses	+10%	66	(66)	(54)

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.

The -100bp interest rate sensitivity assumes interest rates fall below zero for the period up to 4 years following the stress.

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.

4.7 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 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 no formal target at the Group level, however, the Issuer aims to maintain a coverage of at least 130 per cent. of the regulatory minimum SCR. As at 31 December 2017, RLP had an SCR Coverage of 163 per cent. Further details of which are provided in the section headed "*Regulatory Overview*".

Following the PACL Reinsurance Transaction and after allowing for re-calculation of transitional solvency relief, solvency coverage was estimated to be 147 per cent. at the Group on 14 March 2016 and 166 per cent. at the Issuer. Solvency of the Issuer is higher than at Group because the bank loan facility of £500 million does not contribute to the solvency capital of the Group.

The unaudited solvency position of RLP as at the beginning of the 2016 financial year and the solvency position of RLP for the year ended 31 December 2016 and 31 December 2017 is set out below:

RLP Solvency Position

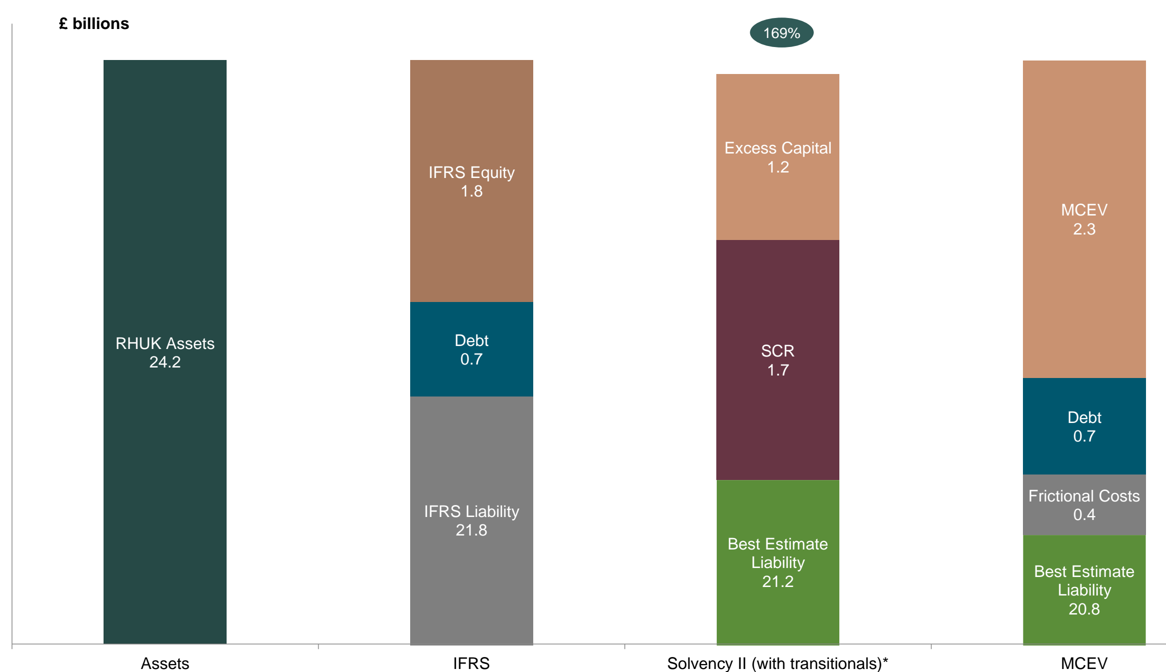
£m (other than percentages)	**01 Jan 16 (unaudited)**	**31 Dec 2016**	**31 Dec 2017**
Tier 1 capital (£m)	1,555	2,526	2,180
Tier 2 capital (£m)	349	361	664
Own Funds available to meet SCR (£m)	1,904	2,887	2,844
SCR (£m)	1,203	1,603	1,743
Surplus above SCR (£m)	701	1,284	1,101
SCR coverage (%)	158	180	163
MCR (£m)	301	431	442
Own Funds available to meet MCR (£m)	1,616	2,612	2,268
MCR coverage (%)	537	605	513

Figures for the unaudited solvency position of RLP as at 30 June 2018 were as follows: Own Funds available to meet SCR were £4,158 million, SCR was £2,351 million, Own Funds available to meet MCR were £3,631 million and MCR was £673 million. SCR Coverage therefore was 177 per cent. and MCR Coverage was 540 per cent.

Figures for the unaudited solvency position of the Group as at 30 June 2018 were as follows: Own Funds available to meet SCR were £3,687 million, SCR was £2,351 million, Own Funds available to meet MCR were £3,159 million and MCR was £673 million. SCR Coverage therefore was 157 per cent. and MCR Coverage was 470 per cent.

4.8 Comparison of 2017YE financial position under different bases

Below is a side-by-side illustration of the Group's financial position under different bases as at 31 December 2017.



*Note: IFRS and Best Estimate Liabilities not to scale. * Solvency II balance sheet presented prior to 01 Jan 2018 TMTP amortisation. Risk Margin (gross of Transitionals and Transitional Tax) = £1,159m*

4.9 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 Prospectus.

Although the PACL transaction materially increased the size of the Group's balance sheet, the overall risk profile of the acquired business is similar to the rest of the business. As a result, in percentage terms the unaudited risk sensitivities as at 30 June 2018 are broadly similar to those disclosed as at 31 December 2017. However due to the additional exposure to corporate bonds received as part of the PACL transaction, the sensitivity to credit spread widening has increased moderately.

5 Dividend Policy

The Group does not have a formal dividend policy. The Issuer aims 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 ongoing 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. The remaining funds were held at RHUK to allow the Group to take advantage of strategic opportunities to grow the business, and subsequently used to partially provide the funds to support the PACL Reinsurance Transaction.

The Issuer's distributable items at 31 December 2017 were £1,651 million, which is the sum of the Issuer's share capital of £264 million, share premium of £549 million and retained earnings of £838 million. At 30 June 2018, the Issuer had £1,896 million of unaudited distributable items.[19]

[19] Excludes proceeds from £500 million bank loan facility at RHUK injected into RLP as equity for the half-year 2018.

6 Recent Developments

On 5 September 2018, RLP published a press release entitled "*Rothesay Life has delivered strong first half performance*" (the "**Trading Statement**"). The Trading Statement is quoted also below:

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

Rothesay Life Plc today updates on its H1 2018 trading performance and announces its intention to raise further debt financing.

The first half of 2018 was dominated by the previously-announced acquisition of £12bn of annuities from Prudential plc (Prudential) – initially by way of a reinsurance contract. In addition to the Prudential transaction, the Group[20] insured the defined benefit liabilities of the Toshiba Pension and Assurance Scheme, taking new business premiums to £12.4bn for HY2018.

The Prudential transaction takes the Group's assets under management to £36.7bn as at 30 June 2018 and has led to market consistent embedded value of the Group growing to £3.2bn as at 30 June 2018.

The Group's solvency position remains robust with a Solvency Capital Requirement (SCR) coverage ratio of 177 per cent. at the level of the Group's operating company, Rothesay Life Plc (RLP), and 157 per cent. at Group level as at 30 June 2018 as shown in the table below:

	Group	**RLP**
Own Funds available to meet SCR	£3,687m	£4,158m
SCR	£2,351m	£2,351m
Surplus above SCR	£1,336m	£1,807m
SCR coverage (%)[21]	**157 per cent.**	**177 per cent.**
MCR	£673m	£673m
Own Funds available to meet MCR	£3,159m	£3,631m
MCR coverage (%)	**469 per cent.**	**540 per cent.**

SCR coverage at Group level is lower than at the operating company level because senior bank debt owed at Group level counts only as a liability and not as regulatory capital for solvency purposes. Although the Prudential transaction materially increased the size of the Group's balance sheet, the overall risk profile of the acquired business is similar to the rest of the business. As a result, in percentage terms, the risk sensitivities as at 30 June 2018 are broadly similar to those disclosed as at 31 December 2017. However due to the additional exposure to corporate bonds received as part of the Prudential transaction, the sensitivity to credit spread widening has increased moderately.

Following entry into the Prudential transaction, we have chosen to de-risk the underlying assets and continue to be cautious about reinvesting the premium given market conditions. Given this approach, we have generated new business strain resulting in first half pre-tax losses as anticipated when underwriting the transaction. First half pre-tax losses for the Group were £257m[22] on a consolidated basis which we expect to reverse into

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[20] References to the "Group" in this announcement mean Rothesay Holdco UK Limited and its subsidiaries and subsidiary undertakings.

[21] We estimate that were we to recalculate transitional solvency relief as at 30 June 2018 then SCR coverage would fall by 7.5% at both levels.

[22] The loss 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 2017.

generating IFRS profits as we invest the assets (which are currently held largely in lower-yielding assets) into new higher-yielding assets, in-line with our long-term investment strategy.

Work has begun on a scheme under Part VII of the Financial Services and Markets Act 2000 in relation to the transfer of the underlying assets and policy liabilities from Prudential to RLP and we anticipate that the transfer will take place in 2019, subject to regulatory and court approval. The transfer will not materially impact the financial position of the Group as the Group already has full financial exposure to the underlying assets and liabilities.

The Group notes the publication by the Prudential Regulation Authority (PRA) of consultation paper CP13/18 "Solvency II: equity release mortgages"[23]. We do not believe that the outcome of the consultation will have a material impact on the Group's financial position or prospects, assuming that the final policy statement is consistent with such proposals. New business is written on terms and assumptions that allow us to comply with the proposals as set out in CP13/18.

The Group has recently made a formal application to the PRA to use its own model for calculating the SCR in relation to credit and counterparty risk but, if such application were to be successful, intends to continue to use the standard formula for all other risks (a 'partial internal model'). The Group has applied for approval to use a partial internal model to ensure that the allocation of capital to investments is consistent with the low risk inherent in the types of highly-collateralised investments which are core to the Group's investment strategy. Approval of the partial internal model would also allow the Group to restructure our holding of equity release mortgages to make them eligible for inclusion in the matching adjustment fund.

As previously announced, Rothesay's main operating company, Rothesay Life Plc, has received an Insurer Financial Strength rating of A+ from Fitch and an Insurer Financial Strength rating of A3 from Moody's."

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.

[23] The consultation paper sets out further proposed detail on the PRA's expectations in respect of firms investing in equity release mortgage portfolios.

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 Richard Berliand

Richard Berliand is Deputy Chairman of the Supervisory board of Deutsche Börse AG, Senior Independent Director of Man Group plc and a Board member of Saranac Partners Limited. He is also advisor to the Commodity Futures Trading Commission in Washington. He was previously with J.P. Morgan for 23 years, most recently as global head of the Cash Equities and Prime Services businesses.

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

7.1.7 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.

7.1.8 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.

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 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 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, certain transactions which due to their nature or size require the 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 directors and the RLP board, 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 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[24] 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 boards of RLP the powers of day to day oversight and management of the business and affairs of RLP, subject to any specific matters reserved for consideration and approval by either of the boards of RLP 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 financial risks and insurance 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

[24] 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

stress test and scenario analysis results, and establishes risk policies and procedures.[25] The Board Risk Committee 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 to 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, the Issuer and RAL;

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[25] 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

Operational risks include all booking, administrative and other operational risks but exclude compliance and conduct risk.

- Thomas Pearce, director of RHUK and the Issuer; and
- Andrew Stoker, director of RHUK, the Issuer and RAL.

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.

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 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 Senior Insurance Managers Regime

The FCA and the PRA have powers and responsibilities under FSMA over persons (usually individuals in financial services firms) who carry out "controlled functions" (i.e. persons who are able to exercise significant influence over an authorised insurer, such as executive or non-executive directors and persons responsible for the risk management, internal audit or compliance functions of an insurance company).

The Approved Persons regime for insurers was replaced by the senior insurance managers regime ("**SIMR**"), which came into effect in April 2016. The SIMR was a new regulatory framework introduced by the FCA and the PRA that aims to (i) make sure that insurance firms and groups have a clear and effective governance structure and (ii) enhance the accountability and responsibility of individual senior managers. To some extent, the SIMR incorporates the previous Approved Persons regime, which

provided that persons who hold positions of significant influence within an authorised firm must be pre-approved by the FCA and, if relevant, the PRA (referred to as "**Approved Persons**"). For dual-regulated firms (such as the Issuer), certain Approved Persons, such as directors, are, under the SIMR, approved by the PRA who will consult with the FCA in relation to such approval. As described below, the SIMR will be replaced by the SMCR (as defined below) which will extend to apply to insurers and reinsurers in December 2018.

3.4 The Senior Managers & Certification Regime

The Senior Managers & Certification Regime ("**SMCR**"), which currently applies to deposit-takers and PRA-designated investment firms, will be extended to apply to all authorised firms, including insurers and reinsurers, from 10 December 2018. The final rules in relation to the extension of the regime were published in July 2018. This will replace the current SIMR (described in section 3.3 above) from that date. Although insurers are already subject to the SIMR, there are significant elements of the SMCR which will be new to insurers.

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 will continue to require prior regulatory approval (although the final PRA and FCA rules published in July 2018 provided that no new approval is needed for an individual performing a controlled function (under the SIMR) that maps directly to a SMF);
- 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 will not be pre-approved by the PRA or FCA. Rather, firms will be 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 will receive 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 will also 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 replace the Statements of Principle and Code of Practice that applies to Approved Persons. The conduct rules will also apply to Certified Persons from the commencement date of the SMCR. 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 will enable the FCA and/or the PRA to apply the conduct rules directly to directors of firms who are not Approved Persons and are considered to be outside the scope of the senior managers' regime.

Firms will also need to take account the latest guidance from the regulators in their preparation for implementation of the SMCR. The FCA has also proposed a new directory for individuals working in

financial services (as the financial services register will not include public records of all important individuals at firms) which would impose new reporting requirements on insurers.

3.5 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 transactions, as well as rules and guidance relating to related product disclosure.

3.6 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 carrying out controlled functions within them. 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 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 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 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 is in the process of applying to the PRA for approval of the use of a partial internal economic capital model for calculating its Solvency Capital Requirements in relation to credit and counterparty risk but intends to continue to use the Standard Formula for other risks. In any event, 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.

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. The Group made such an application as at 31 December 2017 as transitional provisions must be re-calculated every two years. Transitional provisions was then re-calculated on 14 March 2018 to allow for the reinsurance of annuities from Prudential (all of which business was written by Prudential before 1 January 2016).

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 the fourth quarter of 2017 and January 2018, the PRA has published a series of consultation papers seeking to optimise the implementation of Solvency II in the United Kingdom. The consultations cover: (i) guidance on the eligibility of assets for the "matching adjustment"; (ii) the minor internal model change/amendment process; and (iii) a reduced reporting burden on firms.

In July 2018, the PRA published a consultation paper (CP/13/38) in which it sets out further proposed detail on its expectations in respect of firms investing in equity release mortgage portfolios. The consultation paper is relevant to all insurance companies which hold equity release mortgages (including the Issuer) and its proposals 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. Responses to the consultation are requested by 30 September 2018. The proposed implementation date for the proposals is 31 December 2018.

8.3 Capital Markets Action Plan and Capital Markets Union

The European Commission presented its Capital Markets Union Action Plan on 30 September 2015, together with a first set of initiatives to build a Capital Markets Union (the "**CMU**"). The European Commission has proposed that amendments are made to the Solvency II Delegated Regulation (the "**Delegated Regulation**") in order to provide insurance companies with incentives to invest for the long-term in infrastructure and European Long-Term Investment Funds, in particular by reducing the amount of capital that they must hold in respect of such investments. The European Commission's Delegated Regulation making the relevant amendments was subsequently published on 1 April 2016 in the Official Journal of the EU and entered into force on 2 April 2016.

8.4 UK Enquiry into Solvency II

In 2017, the United Kingdom House of Commons Treasury Select Committee launched an enquiry into Solvency II which explored the impact of the Solvency II regime and the options now available to the United Kingdom in light of its vote at the national referendum in June 2016 to withdraw from the European Union. The outcome of the enquiry was published on 27 October 2017 and recommended that the PRA should have a pragmatic discussion with the insurance industry. This should focus on the scope for amendments and increased proportionality in the implementation of Solvency II. In the fourth quarter of 2017 and January 2018, the PRA published a series of consultation papers seeking to optimise the implementation of Solvency II in the United Kingdom (see "*– Solvency II "level" standards*" above).

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.

The IDD applies from 1 October 2018, which has been delayed from the original application date of 23 February 2018.

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 comes into force on 1 October 2018, with the exception of certain provisions enabling the FCA to make financial promotion orders under FSMA, which will come into force on another date.

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 retained in Solvency II (which replaced various EU life and non-life insurance directives). The passporting regime 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 29 March 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 Prospectus 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

Provided that the Notes qualify as 'regulatory capital securities' as defined in, and for the purpose of, the Taxation of Regulatory Capital Securities Regulations 2013 (SI 2013/3209) as amended (the "**Regulations**"), payments of interest may be made by the Issuer without deduction of or withholding on account of UK income tax provided that there are no arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage (as defined in section 1139 of the Corporation Tax Act 2010) for any person as a result of the application of the Regulations to the Notes.

In all other cases, an amount must generally be withheld from payments of interest on Notes that have a UK source on account of UK income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs.

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, such withholding would not apply prior to 1 January 2019. 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 Managers have entered into a Subscription Agreement dated 10 September 2018 (the "**Subscription Agreement**") in respect of the Notes. Pursuant to the Subscription Agreement, subject to the satisfaction of certain conditions, the Global Coordinator and Sole Bookrunner will subscribe for the Notes at 100.00 per cent. of their principal amount less commissions. In addition, the Issuer has agreed to reimburse the Managers for certain of its expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Managers 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.

Each 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

Each 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 does not 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

Each 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 Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive 2002/92/EC (as amended, the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Canada

Each 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 Prospectus (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 Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of this Prospectus 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, each 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 and admission of the Notes to trading on the Main Securities Market will be granted on or around 12 September 2018, 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 €7,000.

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 31 August 2018.

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 186533402. The International Securities Identification Number (ISIN) for the Notes is XS1865334020.

4. The indicative yield to (but excluding) the First Call Date of the Notes is 6.875 per cent. per annum, calculated on a semi-annual basis. The yield is calculated as at the Issue Date on the basis of the Issue Price and on the assumption (solely for the purposes of determining the indicative yield) that all interest payments were to be made in full and that the Notes were to be redeemed on the First Call Date. 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 or to trading on the Main Securities Market for the purposes of the Prospective Directive.

No Significant Change and No Material Adverse Change

11. Save for the PACL Reinsurance Transaction and as disclosed in the section "*Description of the Issuer and the Group – Recent Developments*", since 31 December 2017 there has been no significant change in the financial or trading position of the Issuer and its subsidiaries.

12. Since 31 December 2017, there has been no material adverse change in the prospects of the Issuer and its subsidiaries.

Documents available for Inspection

13. For the period of 12 months starting on the date on which this Prospectus is made available to the public, 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 2017 Annual Report and Accounts, the RHUK 2016 Annual Report and Accounts and the RHUK 2015 Annual Report and Accounts;

    (d) the Issuer 2017 Annual Report and Accounts, the Issuer 2016 Annual Report and Accounts and the Issuer 2015 Annual Report and Accounts;

    (e) Solvency and Financial Condition Report 2017 for the year ended 31 December 2017;

    (f) Solvency and Financial Condition Report 2016 for the year ended 31 December 2016; and

    (g) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus in relation to the Notes.

14. This Prospectus will also be available on the Central Bank of Ireland's website at www.centralbank.i.e and 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 2015, 2016 and 2017. PwC has no material interest in the Issuer or the Group.

Litigation

16. 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 Prospectus which may have, or have had in the recent past significant effects on the financial position or profitability of the Issuer.

Managers transacting with the Issuer

17. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Managers and

their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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