PROSPECTUS dated 7 October 2014

RSA Insurance Group plc

(incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number 2339826)

£400,000,000 Fixed Rate Reset Guaranteed Subordinated Notes due 2045

having the benefit of a subordinated guarantee of

Royal & Sun Alliance Insurance plc

(incorporated with limited liability in England and Wales under the Companies Acts 1862-1900 with registered number 93792)

Issue Price 99.225 per cent.

The £400,000,000 Fixed Rate Reset Guaranteed Subordinated Notes due 2045 (the "**Notes**") will be issued by RSA Insurance Group plc (the "**Issuer**") on 10 October 2014 (the "**Issue Date**"). The Notes will bear interest from (and including) the Issue Date to (but excluding) 10 October 2025 (the "**First Call Date**") at a rate of 5.125 per cent. per annum, payable annually in arrear on 10 October in each year. From (and including) the First Call Date to (but excluding) 10 October 2045 (the "**Maturity Date**"), the Notes will bear interest at a rate per annum, recalculated on each Reset Date (as defined in the Terms and Conditions of the Notes (the "**Conditions**")), which shall be the aggregate of the 5 Year Gilt Rate, plus the Margin (each such term as defined in the Conditions), payable annually in arrear on 10 October in each year, as described in "*Terms and Conditions of the Notes—Interest*". Payments of interest on the Notes (a) may be deferred at the option of the Issuer in respect of any Optional Interest Payment Date (as defined in the Conditions) and (b) must be deferred by the Issuer (i) on each Mandatory Interest Deferral Date (as defined in the Conditions) or (ii) if such payment could not be made in compliance with the Issuer Solvency Condition (as defined in the Conditions), as more particularly described in "*Terms and Conditions of the Notes—Deferral of Interest*". Any interest which is deferred (and not paid by the Guarantor) will, for so long as it remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest, and will be payable as provided in Condition 6. Payments in respect of the Notes will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. If any such withholding or deduction is made, additional amounts may be payable by the Issuer or the Guarantor (as defined below), subject to certain exceptions as are more fully described in "*Terms and Conditions of the Notes—Taxation*".

The Notes will (unless previously redeemed or purchased and cancelled) mature on the Maturity Date, and may be redeemed prior to such date (i) at the option of the Issuer on any Interest Payment Date falling on or after the First Call Date, (ii) in the event of certain changes in the tax treatment applicable to the Notes or (iii) following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event (provided that, (a) in the case of a Ratings Methodology Event, the Notes will not be redeemed prior to the fifth anniversary of the Issue Date and (b) in the case of any redemption prior to the fifth anniversary of the Issue Date, the approval of the UK Prudential Regulation Authority (or any successor authority, the "**PRA**") is required and the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality (unless Solvency II (as defined in the Conditions) is implemented without such requirements)). The redemption of the Notes on the Maturity Date or any other date set for redemption of the Notes shall be deferred if (a) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing on such date, or would occur if the Notes were to be redeemed, (b) redemption would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital (each such term as defined in the Conditions) or (c) the Notes could not be redeemed in compliance with the Issuer Solvency Condition. The Issuer may, alternatively, following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event or in the event of certain changes in the tax treatment applicable to the Notes, vary or substitute the Notes in the circumstances described in Condition 8. Any substitution or variation of the Notes, and any redemption or purchase of the Notes prior to the Maturity Date, will be subject to satisfaction of the Regulatory Clearance Condition and continued compliance with applicable Regulatory Capital Requirements as published by the PRA, all as more particularly described in Condition 8.9.

All obligations of the Issuer to make payments in respect of the Notes will be guaranteed on a subordinated basis by Royal & Sun Alliance Insurance plc (the "**Guarantor**"), as more particularly described in "*Terms and Conditions of the Notes—Guarantee*".

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

An investment in the Notes involves certain risks. For a discussion of these risks see "*Risk Factors*" below.

The Notes are expected to be assigned a rating of BBB+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and Baa1 by Moody's Investors Service Limited ("**Moody's**") (each a "**Rating Agency**"). Each of Standard & Poor's and Moody's is established in the European Union and is registered 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.

JOINT LEAD MANAGERS

Citigroup **HSBC** **RBC Capital Markets**

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, the Guarantor, the Issuer and its subsidiaries taken as a whole (the "**Group**") and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor. The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Guarantor (each of which has 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.

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

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers (as defined in "*Subscription and Sale*" below) to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Prospectus, see "*Subscription and Sale*".

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 or on behalf of the Issuer, the Guarantor or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor 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 or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer, the Guarantor or the issue and offering of the Notes. Each Joint Lead Manager accordingly disclaims all and any liability 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.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

None of the Issuer, the Guarantor or the Joint Lead Managers is providing any advice or recommendation in this Prospectus on the merits of the purchase, subscription for, or investment in, the Notes or the exercise of any rights conferred by the Notes.

The Notes are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters. This Prospectus has been prepared on the basis that any purchaser of Notes is a person or entity having sufficient knowledge and experience of

financial matters as to be capable of evaluating the merits and risks of the purchase. Before making any investment decision with respect to the Notes, prospective investors should consult their own counsel, accountants or other advisers and carefully review and consider their investment decision in the light of the foregoing. An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may result therefrom.

In connection with the issue of the Notes, HSBC Bank plc (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Securities or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "**£**", "**pounds sterling**", "**pounds**" or "**pence**" are to the lawful currency of the United Kingdom, references to "**U.S.$**" or "**U.S. dollars**" are to United States dollars.

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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, included 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	RSA Insurance Group plc.
Guarantor	Royal & Sun Alliance Insurance plc.
Notes	£400,000,000 Fixed Rate Reset Guaranteed Subordinated Notes due 2045.
Issue Date	10 October 2014.
Issue Price	99.225 per cent.
Status and Subordination	The Notes will constitute unsecured, subordinated obligations of the Issuer, and will rank *pari passu* without any preference among themselves. The rights and claims of the holders of Notes ("**Noteholders**") against the Issuer are subordinated in a winding-up of the Issuer as described in Condition 3.2. In addition, all payments by the Issuer under or arising from the Notes and the Trust Deed shall be conditional upon the Issuer being solvent (as that term is described in Condition 3.4) at the time for payment by the Issuer, and no amount shall be payable by the Issuer under or arising from the Notes and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter.
Guarantee	The Notes will be irrevocably guaranteed on a subordinated basis by the Guarantor. The rights and claims of Noteholders against the Guarantor are subordinated in a winding-up of the Guarantor as described in Condition 4.3. In addition, all payments under or arising from the Guarantee shall be conditional upon the Guarantor being solvent (as that term is described in Condition 4.6) at the time for payment by the Guarantor, and no amount shall be payable under or arising from the Guarantee unless and until such time as the Guarantor could make such payment and still be solvent immediately thereafter. For the purpose only of determining whether any Guaranteed Amount is from time to time due and payable by the Issuer for the purposes of the obligations of the Guarantor under the Guarantee, any amount of principal, interest and Arrears of Interest shall be deemed to be due and payable by the Issuer on the applicable date regardless of whether the Issuer Solvency Condition is satisfied or whether the Issuer has deferred payment of such amounts in accordance with the Conditions.
Interest	The Notes will bear interest from (and including) the Issue Date

	to (but excluding) the First Call Date at a rate of 5.125 per cent. per annum payable (subject as provided under "*Deferral of interest*" below) annually in arrear on 10 October in each year. Thereafter, the interest rate shall be recalculated on each Reset Date by reference to the 5 Year Gilt Rate, plus the Margin (subject as provided under "*Deferral of interest*" below) payable annually in arrear on 10 October in each year.
Deferral of interest	The Issuer may, on any Optional Interest Payment Date, elect to defer payments of interest on the Notes. The Issuer is required to defer any payment of interest on the Notes (i) on each Mandatory Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or where payment would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital) or (ii) if such payment could not be made in compliance with the Issuer Solvency Condition. The Guarantor may, on any Guarantor Optional Interest Payment Date, elect to defer payments of Guaranteed Amounts in respect of interest on the Notes. The Guarantor is required to defer payments of Guaranteed Amounts in respect of interest on the Notes (i) on each Guarantor Mandatory Interest Deferral Date (being an Interest Payment Date in respect of which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or where payment would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital) or (ii) if such payment could not be made in compliance with the Guarantor Solvency Condition.
Arrears of Interest	Any interest which is deferred by the Issuer and the Guarantor will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by the Issuer as provided in Condition 6.7 or by the Guarantor as provided in Condition 6.8.
Redemption at maturity	Unless previously redeemed or purchased and cancelled, the Issuer will (subject as provided under "*Deferral of redemption*" below) redeem the Notes on 10 October 2045.
Early redemption	The Issuer may, subject as provided under "*Deferral of redemption*" below, upon giving not less than 15 nor more than 30 days' notice to Noteholders, redeem all (but not some only) of the Notes on the First Call Date or any Interest Payment Date thereafter at their principal amount together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption. The Notes are not redeemable at the option of any Noteholder.
Redemption, substitution or variation	If:

upon a relevant tax law change

(a) as a result of a change in, or amendment to, certain tax laws or regulations or the official interpretation thereof, on the next Interest Payment Date, (i) the Issuer would be required to pay additional amounts on the Notes as provided in Condition 9; or (ii) the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; or (iii) the payment of interest (or any Guaranteed Amounts in respect of interest) would no longer be deductible for United Kingdom tax purposes; or (iv) in respect of the payment of interest (or any Guaranteed Amounts in respect of interest), the Issuer or the Guarantor, as the case may be, would not to any material extent be entitled to have any attributable loss or non-trading deficit set against the profits (assuming there are any) of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

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

the Issuer may, in accordance with Condition 8.6, upon notice to Noteholders either:

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

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

all as more particularly described in Condition 8.6.

Redemption, substitution or variation upon a Capital Disqualification Event or a Ratings Methodology Event

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

(a) redeem all (but not some only) of the Notes at any time (in the case of a Capital Disqualification Event) or at any time on or after the fifth anniversary of the Issue Date (in the case of a Ratings Methodology Event) at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the

date of redemption (subject as provided under "*Deferral of redemption*" below); or

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

all as more particularly described in Condition 8.7.

Deferral of redemption

No Notes shall be redeemed by the Issuer on the Maturity Date or on any other date set for redemption pursuant to Conditions 8.5, 8.6 or 8.7 if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were to be redeemed, (ii) redemption would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital or (iii) such redemption could not be made in compliance with the Issuer Solvency Condition.

In addition, the obligations of the Guarantor under the Guarantee to make payment of Guaranteed Amounts in respect of principal, interest or any other amount in relation to the redemption of the Notes will be mandatorily deferred if (i) a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if such payment is made, (ii) making payment of any Guaranteed Amounts in respect of principal, interest or any other amount in relation to the redemption of the Notes would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital or (iii) such payment could not be made in compliance with the Guarantor Solvency Condition.

If redemption of the Notes is deferred, the Issuer will redeem the Notes as provided in Condition 8.2 or the Guarantor will pay the Guaranteed Amounts in respect of the redemption of the Notes as provided in Condition 8.3.

Preconditions to redemption, variation, substitution or purchase

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

In addition, in the case of any redemption prior to the fifth anniversary of the Issue Date, such redemption will only be made on the condition that the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality (unless Solvency II is implemented without such requirements).

Withholding tax and additional amounts	The Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding or deduction for, or on account of, any taxes required by law in the United Kingdom upon payments made by or on behalf of the Issuer in respect of the Notes or by or on behalf of the Guarantor under the Guarantee, will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions as set out in Condition 9.
Events of Default	*Issuer* If default is made by the Issuer for a period of 14 days or more in the payment of any interest or principal due in respect of the Notes or any of them, or an Issuer Winding-Up occurs, the Trustee on behalf of the Noteholders may (and, subject to certain conditions, if so directed by the requisite majority of Noteholders shall) institute proceedings for the winding-up of the Issuer in England and Wales (but not elsewhere), and/or (as applicable) prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer but may take no further action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed. Upon the occurrence of an Issuer Winding-Up, the Trustee may (and, subject to certain conditions, if so directed by the requisite majority of the Noteholders shall) give notice to the Issuer that the Notes are, and they shall accordingly become, immediately due and payable by the Issuer at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest, but the Guarantor's obligations with respect to payments under the Guarantee shall be as provided in Condition 4.5. *Guarantor* If default is made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee, or a Guarantor Winding-Up occurs, the Trustee on behalf of the Noteholders may (and, subject to certain conditions, if so directed by the requisite majority of the Noteholders shall) institute proceedings for the winding-up of the Guarantor in England and Wales (but not elsewhere), and/or (as applicable) prove in the winding-up or administration of the Guarantor and/or claim in the liquidation of the Guarantor but may take no further action to enforce, prove or claim for any payment by the Guarantor in respect of the Notes or the Trust Deed (including the Guarantee). Upon the occurrence of a Guarantor Winding-Up, there shall be due and payable by the Guarantor an amount equal to the principal amount of the Notes together with any Arrears of

	Interest and any other accrued and unpaid interest, but the Notes shall not thereby become immediately due and repayable by the Issuer. *No amounts shall be due for payment by the Issuer under the Notes or the Trust Deed or due for payment by the Guarantor under the Guarantee where payment of such amounts has been deferred by the Issuer and/or the Guarantor, as the case may be, in accordance with the Conditions.*
Substitution of obligor and transfer of business	The Conditions permit the Trustee to agree to the substitution in place of the Issuer or the Guarantor of a Substitute Obligor in the circumstances described in Condition 14 without the consent of Noteholders. In addition, the Guarantor may, without any prior approval from the Noteholders or the Trustee, transfer a substantial part (being any part which represents 50 per cent. or more of the liabilities (where the amount of the liabilities of the Guarantor is deemed to mean the same as the technical provisions of the Guarantor, net of reinsurance) relating to policies underwritten by the Guarantor) of its business in the circumstances provided in Condition 16, provided that all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee are transferred to the relevant transferee.
Form	The Notes will be issued in registered form and represented upon issue by a registered global certificate (the "**Global Certificate**") which will be registered in the name of a nominee for a common depositary (the "**Common Depositary**") for Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and Euroclear Bank S.A./N.V. ("**Euroclear**") on or about the Issue Date. Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the Global Certificate.
Denomination	The Notes will be issued in denominations of £100,000 each and integral multiples of £1,000 in excess thereof.
Meetings of Noteholders	The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.
Listing	Admission to listing on the UK Listing Authority's Official List and to trading on the regulated market of the London Stock Exchange.
Ratings	The Notes are expected to be assigned ratings of BBB+ by Standard & Poor's and Baa1 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at

	any time by the assigning rating agency.
Governing law	The Notes and the Trust Deed (including the Guarantee), and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed (including the Guarantee), will be governed by, and construed in accordance with, English law.
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent	Deutsche Bank AG, London Branch.
Registrar	Deutsche Bank Luxembourg S.A.
Selling restrictions	Customary selling restrictions in the U.S. and UK.
Use of Proceeds	The net proceeds of the issue of the Notes will be used for the general corporate purposes of the Group.

RISK FACTORS

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Notes are described below.

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

Capitalised terms which are defined in "Terms and Conditions of the Notes" have the same meaning when used herein.

Factors that may affect the Issuer's and the Guarantor's ability to fulfil its obligations under the Notes and the Guarantee

Risks related to the Group's business

The Group may be unable to implement its strategic plan effectively

On 27 February 2014, as part of the Group's announcement of its preliminary results for the financial year ended 31 December 2013 ("**FY 2013**"), the Group announced that it has identified a series of new strategic initiatives following a review of its business that was focused on improving capital strength, optimising its business and restoring confidence. These initiatives aim to strengthen the Group's capital measures to target levels, increase the standalone capital position of the UK business and capital fungibility, ensure readiness for Solvency II, reduce leverage and de-risk other liabilities. The Group's initiatives include the disposals of certain businesses and a corresponding increased focus on a smaller number of core markets (namely, the UK and Ireland, Scandinavia, Canada and Latin America) and business lines over the next few years, as well as portfolio action during 2014 by means of the restructure of or exit from a number of low return, non-strategic portfolios. On an operational level, the Group will seek efficiencies and synergies to support profitable growth.

These initiatives will take several years to implement fully. They may lead to short-term dislocations and reorganisation costs (including upgrades to information technology platforms) which could be significant in the short to medium term. In addition, the Group has made, and may continue to make, judgements in its normal accounting and reporting cycle on the carrying value of intangible assets and insurance liabilities. Any adverse movement in such items may be material, although it would be set against the gains from disposals of non-core businesses when arising as retained earnings. The ability of the Group to implement successfully, and achieve the expected benefits of, its initiatives may be impacted by both internal and external factors, including factors not within the Group's control, such as regulatory factors, further deterioration in claims experience related to weather and catastrophe events, the impact of softening rates in certain lines of business, interest rate and foreign exchange fluctuations and competition. The benefits of these actions are expected to

be realised over the medium term but the Group may not achieve the expected benefits in the envisaged time frames, or at all. Failure to do so would be likely to have a material adverse effect on the Group's financial strength, credit ratings and capital position, as well as its business, results of operations and financial condition.

Failure to maintain adequate capital could have a variety of negative regulatory and operational implications for the Group

Insurance companies such as the Group are required to maintain a minimum level of assets (referred to as regulatory capital) in excess of the value of their liabilities to comply with a number of regulatory requirements relating to the Group's (and its subsidiaries') solvency and reporting bases. These regulatory requirements apply to individual insurance subsidiaries on a standalone basis and in respect of the Group as a whole. The Group's regulatory capital requirements have in the past both increased and decreased, and may from time to time in the future increase and decrease for a number of reasons. The Group's capital position is also assessed by its regulators, which may include evolving regulatory views on capital adequacy. This may result in an increased capital requirement in the form of individual capital guidance ("**ICG**") from the PRA over and above the Group's individual capital assessment ("**ICA**") (which is a forward-looking, economic assessment of the capital requirements of the Group based on its assessment of the risks to which it is exposed) or from a regulator of one of the Group's insurance subsidiaries. See "*–Solvency II Directive will impose new risk-based capital requirement on the Group*" for further information on the risk of not obtaining regulatory approval of the Group's internal model which may lead to a material increase in the Group's capital requirements when Solvency II comes into force on 1 January 2016.

The Group's capital position can be adversely impacted by a number of factors, in particular factors that erode the Group's capital resources and could impact the quantum of risk to which the Group is exposed. Such factors include lower than expected earnings and accumulated market impacts (such as foreign exchange, pension deficit movements and asset valuation). In addition, any event that erodes current profitability and/or is expected to reduce future profitability or make profitability more volatile could impact the Group's capital position.

The Group is undertaking a variety of measures to strengthen its capital position in light of emerging trends in capital adequacy as well as to provide the Group with the flexibility to operate with fewer concerns over capital constraints. Failure to achieve and maintain adequate capital buffers could have an adverse impact on growth prospects for the Group.

Any inability to meet regulatory capital requirements in the future would be likely to lead to intervention by regulatory authorities in each of the relevant jurisdictions in which the Group operates and by the PRA, as regulator for the wider Group. In these circumstances, the PRA, in the interests of policyholder security, could be expected to require the Group to take steps to restore regulatory capital to acceptable levels, for example, by requiring the Group to cease to write or reduce writing new business or by imposing restrictions on the fungibility or movement of capital between the Group entities. Local regulatory authorities may also intervene by requiring additional capital to be held locally, in regulated subsidiaries. Regulatory authorities may also restrict the Group's ability to transfer capital among regulated entities. The Group may also need to increase premiums, increase its reinsurance coverage or divest additional parts of its business and investment portfolio, any of which may be difficult or costly or result in a significant loss, particularly in cases where such measures need to be undertaken in a short time frame. The Group's regulated subsidiaries might also have to reduce the amount of dividends they pay to their respective shareholders, or possibly cease paying dividends to meet their regulatory capital requirements.

Failure of the Group to maintain adequate levels of capital could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Changes in the Group's credit ratings may adversely affect the Group

Credit ratings are an important factor in the Group's competitive position. Rating organisations periodically review the financial performance and condition of insurers, including the Group and its insurance subsidiaries. Rating organisations assign ratings based upon a variety of factors according to published criteria. While most of the factors relate to the rated company including the level of capital, market positions and diversity of insurance risk, some of the factors relate to general economic conditions and other circumstances outside the rated company's control. In addition, the Group's investments and its credit exposures under its reinsurance arrangements are taken into account when calculating the Group's credit rating, as well as an assessment of its enterprise risk management and governance.

Currently, the Group's credit ratings are A (Stable) from Standard & Poor's and A2 (Negative Outlook) from Moody's. These ratings reflect the current opinions of the rating agencies and remain subject to change. There can be no assurance that the Group will be able to maintain its current credit ratings.

A downgrade of any of the Group's credit ratings could have a material adverse impact on the ability of the Group to write certain types of general insurance business, particularly commercial insurance business. A downgrade could also lead brokers (especially large global brokers) to stop recommending the Group's products and lead to the loss of other customers whose confidence in the Group may be affected or whose policies require insurance from insurers with a certain rating. While the Group could, among other things, consider writing business on a fronted basis (i.e. an arrangement where a higher rated insurer writes certain lines of the Group's business) to mitigate the effects of the loss of broker recommendations, such measures may have an adverse effect on the Group's underwriting profitability. A downgrade could also impact the terms and availability of financing and access to the debt capital markets or require the Group to post collateral under its outstanding derivative contracts. A reduction by Standard & Poor's in credit quality metrics (such as the Group's enterprise risk management rating, business risk profile and management strength assessments) could require the Group to hold additional capital, on the basis of Standard & Poor's methodology, to maintain its current credit rating.

A downgrade of any of the Group's credit ratings, and the related consequences described above, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Factors outside the Group's control, including adverse economic conditions or political developments, may adversely affect the Group's business, financial condition and results of operations, and these adverse economic conditions may continue in certain markets

As a general insurer, the Group's return on investments and results of operations are materially affected by changes and volatility in the worldwide financial markets and macroeconomic conditions generally. Increased volatility in the financial markets in recent years and prolonged low yields in the global fixed income markets have been influenced by a wide variety of factors, including:

- concerns over the slow rates of growth in the global economy and, in particular, the impact of austerity measures in major developed economies and slowing rates of growth in emerging markets;
- high levels of sovereign debt;
- inflationary or deflationary threats;
- extensive use of macroeconomic and monetary policy tools by governments, central banks and other institutions, and uncertainty about future actions such as further tapering of quantitative easing in the United States;
- the solvency of financial institutions; and

- the failure of governments to agree upon, and implement, necessary fiscal, monetary and regulatory reforms.

Ongoing uncertainty over future fiscal and monetary policy, particularly within the EU, and any further instability affecting one or more Member States or its financial institutions could continue to further disrupt global markets, including equity and fixed income markets. This may have a material adverse impact on the Group's investment portfolio and investment income due to continuing low interest rates and general market volatility. See "*–The Group is exposed to risks in relation to its investments*" for further information on the risks related to the Group's investment portfolio and investment income.

The Group's operations in emerging markets (which contributed 15 per cent. of its net written premiums in the half year ended 30 June 2014 ("**H1 2014**")) expose it to the economic conditions in these markets. Countries in emerging market regions in Asia and Latin America, including Brazil, China and India, have experienced significant deceleration in gross domestic product ("**GDP**") growth over the past few years. For some countries, the risk of further considerable slowdown in GDP growth remains. In addition, recently, emerging markets, notably Argentina, have experienced significant currency depreciation, which exposes the Group to currency translation risk in respect of its activities in these regions. Further, certain emerging markets (such as Argentina, Russia and Ukraine) are currently experiencing challenging economic conditions and political uncertainty. Periods of economic upheaval could also result in sudden government actions such as imposition of capital, price or currency controls, or changes in legal and regulatory requirements, which could have potentially adverse consequences. In general, while emerging markets afford potentially greater growth opportunities than developed markets, they expose the Group to potentially more volatile and uncertain economic environments.

Macroeconomic conditions can impact the Group's underwriting results as well. 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 financial and insurance products could be adversely affected, with customer behaviour and confidence exacerbating the unfavourable impact on demand. In addition, under these conditions, the Group may experience an elevated incidence of claims.

The Group's claims and unexpired risk provisions may not adequately cover actual claims

Claims are the Group's principal expense and it could be many years before all claims that have occurred as at any given accounting period will be reported and settled. The Group's results depend in large part upon the extent to which actual claims experience is consistent with the assumptions that it uses in setting its premiums and establishing its reserves, and the Group's provisions for outstanding claims, unearned premiums and unexpired risks may prove to be insufficient to cover the Group's actual claims experience. For example, provisions for outstanding claims cannot represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of claims. These estimates are based on actuarial and statistical projections of facts and circumstances known at a given time, as well as estimates of trends in claims severity, and other variable factors, including new bases of liability and general economic conditions, and can change over time. The diversity of the Group's insurance risks can make it more difficult to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of its insurance liabilities.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Group's business by either requiring it to extend coverage beyond its underwriting intent or by increasing the number or size of claims. Examples of emerging claims and coverage issues include:

- adverse changes in loss trends;

- growth of claims culture;
- legislative or judicial action that affects policy coverage or interpretation, claim quantification, or pricing;
- a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claims-handling and other practices;
- new causes of liability or mass claims;
- claims in respect of directors' and officers' coverage, professional indemnity and other liability covers; and
- climate change-related litigation.

In the UK, there may be changes to the factors used by courts (the so-called Ogden Tables) to calculate lump sum damage awards for future losses (typically for lost earnings arising from personal injuries and fatal accidents), which could result in a reduction in the discount rate and a corresponding increase in the value of future claims settlements. Also in the UK, periodic payment orders ("**PPOs**") can be agreed or ordered in cases involving awards to cover cost of care and loss of income. An increase in healthcare inflation, claimant longevity or the propensity to award PPOs, rather than lump sums, would tend to increase the value of future claims settlements and thereby increase the costs of these settlements.

Frequent legislative changes, particularly those that affect long-tail lines of business (being lines of business characterised by a lengthy delay between the period of cover and either the emergence or the settlement of claims, or both) can heighten uncertainty around pricing and reserves. For example, the process of restating of historical data to reflect legislative changes and any additional loadings included in the reserves to allow for legislative changes add an element of subjectivity to the reserving process for the relevant business.

As a consequence of these uncertainties, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long-tail lines of business. For example, the Group's exposure to annuity-type claims dependent on the longevity of claimants, such as PPO claims in the UK and workers' compensation and motor injury claims in Scandinavia, are subject to risks not typically associated with non-life liabilities (including investment, longevity and indexation, or revision, risk). Due to these inherent uncertainties, actual losses for these long-tail lines especially could be significantly higher than initial estimates.

To the extent claims provisions are insufficient to cover actual losses or loss adjustment expenses, the Group would have to increase its claims provisions and incur a charge to the Group's earnings. Insufficient claims provisions could have a material adverse effect on the Group's financial condition, results of operations and cash flows. In addition, reserve strengthening or reserve releases can have a significant impact on reported results and period-to-period comparisons. The Group estimates its outstanding claims provision with the aim that, over the longer term, reserves should be more likely to run off favourably than adversely. However, this approach cannot eliminate the risk of adverse movement.

The effects of emerging claim and coverage issues are inherently difficult to predict, but could result in an increase in either or both the number and the magnitude of claims, and may therefore have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's exposure to asbestos, environmental, noise-induced hearing loss and physical and sexual abuse claims may lead to an increase in its claims provisions

The Group has exposure with respect to asbestos (particularly mesothelioma), environmental, noise-induced hearing loss, tinnitus and physical and sexual abuse claims arising from the sale of liability policies. The

estimation of provisions for the ultimate cost of claims for asbestos, environmental pollution, noise exposure and physical and sexual abuse is subject to a range of uncertainties that is generally greater than those associated with other classes of lines of business. Factors contributing to this higher degree of uncertainty are set out in "*Estimation Techniques, Uncertainties and Contingencies*".

As with other lines of business, insufficient claims provisions in respect of asbestos, environmental, noise-induced hearing loss and/or physical and sexual abuse claims (or any other classes of personal injury claims which may emerge) could have a material adverse effect on the Group's financial condition, results of operations and cash flows, though the effect could be greater than in respect of such other lines of business.

Adverse and extreme weather-related events and other catastrophes have had, and can in the future have, a significant impact on the Group's results

The frequency and severity of claims incurred by the Group is affected by the incidence of adverse and extreme weather events and catastrophes. Severe weather events such as rainstorms, windstorms, snowstorms, hailstorms, earthquakes, tsunamis and volcanic eruptions may cause significant damage to homes and commercial property insured by the Group and commercial property, particularly in heavily populated or industrialised areas where there is a commensurate concentration of risk. New global security threats including financial volatility, political volatility (including terrorist threats and acts) and social volatility may also impact upon the Group. The Group suffered significant net losses in late 2013 and early 2014 in relation to adverse weather in the UK and Ireland, Canada and parts of Europe.

The impact of weather-related events and climatic conditions on the Group's business may also be affected by other external factors beyond its control. For example, in June 2013, the UK Government and the Association of British Insurers agreed a memorandum of undertaking on how to develop a not-for-profit scheme, known as "Flood Re" that is aimed at ensuring flood insurance remains affordable and available. Flood Re is proposed to be a levy-based system to guarantee cover to high risk properties in future using a pool of capital from which to settle flood claims. Implementation of Flood Re could take several years and a complete failure of the existing statement of principles on flooding during this period could lead to more rapid action by the UK Government to oblige all insurers to take on their market proportion of high flood risk properties at "affordable" prices, which may result in increased pricing risk for the Group.

The Group's business also involves writing insurance for catastrophic events such as hurricanes, earthquakes, tornadoes, floods, fires and acts of terrorism. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. While the Group seeks to reduce its exposure to such events through selective underwriting practices, large loss provisions, reinsurance and the monitoring of risk accumulations, these actions may not be adequate and the incidence, timing and severity of catastrophes are inherently unpredictable. A single severe catastrophe or multiple catastrophes in any one period could, where claims exceed the limits of applicable reinsurance purchased by the Group, cause large losses for the Group and materially reduce its profitability or harm its financial position. In addition, catastrophic events could harm the financial condition of issuers of obligations the Group holds in its investment portfolio (thereby impairing those obligations) and the financial condition of the Group's reinsurers (thereby decreasing the probability of reinsurance recoveries).

The Group could lose market share, incur losses on some or all of its activities and experience lower growth if it is unable to offer competitive, attractive and innovative products and services or respond to changing distribution trends

The Group is exposed to changes in the behaviour of its customers and the markets in which it sells its insurance products. Changes in lifestyle, technology, regulation, or taxation could significantly alter customers' actual or perceived need for insurance and the types of insurance sought. Changes in technology could give rise to new types of entrants into the insurance and/or insurance sales markets or the development

of new distribution channels requiring further adaptation of the Group's business and operations. Although the pace of internet adoption varies across the world, the Group is seeing growing demand for online sales and service in all of the jurisdictions in which it operates. For example, competitive pressures from price comparison websites and other new technologies and distribution channels, including changes driven by an increasingly digital society, may require changes to the Group's business operations, including IT systems and functionality, may put pressure on premiums that can be charged and may create the need for different product structures such as modular "build your own" products. Failure to update its IT systems adequately may result in the Group being unable to match the products or pricing of its competitors and therefore in the Group being unable to maintain its competitive position. Furthermore, economic rebalancing may lead to a more dominant market position for China and India and result in new domestic market leaders in emerging markets, as well as a shift of focus from the developed to emerging markets. The Group could lose market share, incur losses on some or all of its activities or experience lower growth if it is unable to offer competitive, attractive and innovative products and services that are also profitable, if it does not choose the right marketing approach, product offering or distribution strategy or if it fails to anticipate or successfully adapt to change.

New developments could result in reduced demand for the Group's products and require the Group to expend significant energy, resources and expenditure to change its product offering, build new risk and pricing models, modify and renew its operating and IT systems and/or retrain or hire new people. Despite efforts to do so, the Group may not be able to respond to changes effectively or on a cost-efficient basis, which could have a material adverse effect on its business, prospects, results of operations and financial condition.

Loss of business reputation or negative publicity could negatively impact the Group's business and results of operations

The Group's success and results of operations are dependent on the strength and reputation of the Group and its brands. The Group is vulnerable to adverse market perception because it operates in an industry where integrity and customer trust and confidence are paramount. The Group is exposed to the risk that litigation, employee misconduct, operational failures, regulatory or other investigations or actions, press speculation and negative publicity, whether or not well founded, could damage its brands or reputation. The Group's reputation may also be adversely affected by negative publicity associated with those that it insures. In addition, claims management companies and consumer protection groups could increase their focus on the insurance industry, which may negatively impact the Group. Any damage to the Group's brands or reputation could cause existing customers, partners or intermediaries to withdraw their business from the Group and potential customers, partners or intermediaries to elect not to do business with the Group and could also make it more difficult for the Group to attract and retain qualified employees. Such damage to the Group's brands or reputation could cause disproportionate damage to the Group's business, even if the negative publicity is factually inaccurate or unfounded.

The Group could be adversely affected by the loss of one or more key employees or by an inability to attract, retain and properly incentivise, or obtain UK or overseas regulatory approval for, qualified personnel

The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior underwriters, senior management and other key personnel. While the Group has entered into employment contracts or letters of appointment with such key personnel, the retention of their services cannot be guaranteed.

The Group's continued success also depends upon its continuing ability to recruit and retain employees of suitable skill and experience, particularly those with financial, IT, underwriting, actuarial, claims, Solvency II and other specialist skills. The Group competes with other financial services groups for skilled personnel,

primarily on the basis of its reputation, financial position, remuneration policies and support services, and may incur significant costs to recruit and retain appropriately qualified individuals.

In addition, the PRA and FCA also have the power to regulate individuals in the UK who have significant influence over the key functions of an insurance business, such as governance, finance, audit, compliance and management functions. The PRA and FCA may not approve individuals for such functions unless they are satisfied that they have appropriate qualifications and/or experience and are fit and proper to perform those functions, and may withdraw their approval for individuals whom they deem no longer fit and proper to perform those functions. Corresponding regulation with respect to individuals applies in many of the Group's overseas territories.

The loss of the services of one, or some of, the senior management or other key personnel or the inability to recruit, retain, motivate and train staff of suitable quality who are approved by the regulators could adversely affect the ability of the Group to continue to conduct its business and its competitive position, which could have a material adverse effect on the Group's results of operations and financial condition.

The Group is exposed to risks relating to fraud and misconduct

The Group is exposed to risk of misconduct and fraud, including policy (i.e. application-related) fraud and claims fraud from a variety of sources, such as employees, suppliers, intermediaries, customers and other third parties.

Misconduct: The Group has in place controls designed to ensure that risk selection is within the Group's risk appetite and that risk assumption adheres to the Group's pricing and reserving guidelines. Notwithstanding these controls, errors or misconduct by employees or agents may lead to losses. These may arise from, among other things, dealings with brokers, fraud, errors, failure to document transactions properly, failure to obtain proper internal approval, or failure to comply with internal guidelines and/or regulatory requirements.

For example, during the fourth quarter of FY 2013, following a review of control failure in its Irish business, the Group announced £200 million of losses in its Irish business, of which £72 million was attributable to claims and financial irregularities and £128 million was attributable to reserve strengthening. A comprehensive review by PricewaterhouseCoopers LLP concluded that the Group's control framework was appropriate in terms of structure and design, but noted that the effectiveness of the framework as it related to Ireland was weakened due to independent controls not operating effectively. The Group is in the process of strengthening its processes to prevent management fraud and override of controls. However, it is not always possible for the Group to deter or prevent employee or agent misconduct and the precautions taken to prevent and detect this activity have not been and may not in the future be completely effective in all cases. Resultant losses could have a material adverse effect on the Group's business, reputation, financial condition and results of operations.

Policy fraud and claims fraud: The Group is also at risk from customers who misrepresent or fail to provide full disclosure in relation to the risk against which they are seeking cover before such cover is purchased, and from customers who fabricate claims and/or inflate the value of their claims. The Group, in common with other general insurance companies, is also at risk from its employees failing to follow procedures designed to prevent fraudulent activity, as well as from its agents' fraudulent activity, such as falsifying policies or failing to remit premiums collected from customers on the Group's behalf. A failure to combat the risks of fraud effectively could adversely affect the profits of the Group as claims incidence and average payouts could increase. Further, such costs may have to be passed on to customers in the form of higher premium levels, which could result in a decrease in policy sales.

The occurrence of any of these events could have a material adverse effect on the Group's business, reputation, financial condition, results of operations and cash flows.

The Group's business is highly dependent upon the successful functioning of its computer and data processing systems, failure of which could adversely affect the Group's business and damage its customer relationships

The Group relies on information technology systems for critical elements of its business process. These systems, which include complex computer and data processing platforms, may be disrupted by events including terrorist acts, natural disasters, telecommunications and network failures, power losses, physical or electronic security breaches, fraud, identity theft, process failures, computer viruses, computer hacking, malicious employee attacks or similar events. In addition, the Group may identify, and has identified, weaknesses in its computer and data processing systems, as well as the control environment for these systems. The failure of information technology systems could interrupt the Group's operations or materially impact its ability to conduct business. Material flaws or damage to the system, particularly if sustained or repeated, could result in the loss of existing or potential business relationships, compromise the Group's ability to pay claims in a timely manner and/or give rise to regulatory implications, which could result in a material adverse effect on the Group's reputation, financial condition and results of operations.

Design and implementation of upgrades to these systems can be complex and may not always deliver all the intended benefits according to the original timescales and budgets for doing so.

In addition, certain key elements of the Group's platform are legacy systems that are not fully integrated into the overall platform and may require increased manual input, which increases the risk of error. The Group expects to invest in the upgrade and replacement of legacy systems. In addition to costs associated with the upgrade, any dislocation associated with the upgrades, pending completion of the upgrade, or future upgrades of other systems, the overall platform may be more susceptible to inefficiencies or disruptions. The Group's insurance might not adequately compensate it for material losses that could occur due to disruptions in its service as a result of computer and data processing systems failure and electronic attacks.

Certain of the Group's information technology and operational support functions are outsourced to third parties but remain critical to the Group's business, such as mitigation of electronic attacks. The Group is reliant in part on the continued performance, accuracy, compliance and security of all these service providers. If the contractual arrangements with any third party providers are terminated, the Group may not find an alternative outsource provider or supplier for the services, on a timely basis, on equivalent terms or without significant expense or at all. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

Operational risks, such as those arising from the failure or improper operation of internal processes, including the Group's claims management processes, or other disruptions to the Group's business, are inherent in the Group's business

The Group's financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control, such as natural disasters, power losses, network failures, increased transaction volume, terrorist attacks, process failures or similar events. Any failure, termination or constraint in respect of its systems could adversely affect the Group's ability to effect transactions, service its clients, manage its exposure to risk or expand its businesses or result in financial loss or liability to its clients, impairment of its liquidity, disruption of its businesses, regulatory intervention or reputational damage. In addition, the Group has outsourced elements of its investment management function to a variety of asset management companies and is dependent on their systems and controls in respect of the portfolios they manage.

A key assumption used in the pricing of the Group's insurance products, as well as the provisions for claims, is the relative time and efficiency with which claims will be notified, processed and paid. Efficient and effective claims management depends, among other things, on well-trained personnel making accurate and

timely decisions with respect to claims handling. Inefficiencies and inaccuracies in managing and paying claims can lead to issues such as inaccurate indemnity decisions, inappropriate claims reserving and/or payment decisions, an increase in undetected fraud and inaccurate management information for reserving and pricing, resulting in additional claims costs and claims handling-related expenses as well as increased risk that technical reserves and/or pricing models will be inappropriate or inaccurate. This risk is particularly acute where the time lag between claim and payment is large. If the Group's claims management processes prove to be inefficient or ineffective or it otherwise suffers from costs or expenses above expected levels, the Group could be forced to refine its pricing models, potentially resulting in a loss of business, and increase its technical reserves. Such additional costs or inflation effects could harm the Group's profitability, which could have an overall adverse effect on the Group's business, prospects, results of operations and financial condition.

Pension scheme liabilities may impact the Group. In particular, some of the Group's pension plans and other post-retirement benefits plans are underfunded, requiring significant Group contributions

The Group has a number of defined benefit schemes. The Group's contributions to its pension and other post-retirement benefits plans depend on plan performance and mortality experience, interest rates, fluctuations in equity markets, pension funding legislation and other factors. In aggregate, these schemes had a deficit of £125 million under revised IAS 19 as of 31 December 2013. Guaranteed deficit funding contributions of £64 million have been made to the UK schemes in 2014, and will also be made in each of 2015 and 2016. The level of deficit contributions will be reviewed following the next triennial funding valuation of the schemes as at 31 March 2015. There is a risk that a future funding valuation may show a deterioration in the schemes' financial position as a result of which the schemes' actuaries may recommend, and the Group may agree to, higher additional contributions or a shorter timetable for payment than previously agreed.

Key assumptions inherent in the calculation of the funding position of the Group's pension schemes include the expected rate of return on plan assets and inflation. If actual rates of return on invested plan assets were to decrease significantly, the Group's plan funding obligations could increase materially. The Group cannot predict whether changing conditions including asset performance, government regulation or other factors will require it to make contributions in excess of its current expectations. An increase in the Group's contributions to its plans could have an adverse effect on the Group's capital position and financial condition.

As a regulated insurance group, the Group is subject to extensive regulatory supervision and legal requirements and regulatory and legislative changes could adversely affect the Group's business and may have significant implications for the Group's capital position

The Group's insurance subsidiaries are subject to financial regulation in each of the jurisdictions in which they conduct business. Regulatory authorities (such as the FCA and the PRA in the UK and other local regulatory authorities) have broad administrative power over many aspects of the Group's insurance business. Regulatory authorities are concerned primarily with the protection of policyholders rather than shareholders or creditors. Regulatory authorities have wide powers to supervise and intervene in the affairs of insurance companies and may, in specific circumstances, vary or cancel authorisations required to operate the Group's business. The Group must ensure regulatory compliance in all locations, with diverse regulatory requirements, increasing the burden of compliance and risk of non-compliance.

Insurance laws, regulations, policies, accounting rules and practices and other laws currently affecting the Group may change from time to time in ways which may have an adverse effect on the Group's business, financial condition or results of operations. Across the insurance industry, regulators are taking a more intrusive approach to regulated entities and are focused increasingly on capital and reserve adequacy, capital fungibility, as well as on consumer protection initiatives. Regulators in Europe can benchmark against evolving Solvency II principles and requirements, and a number of regulators outside Europe are developing

Solvency II-like requirements in parallel with the initiatives in Europe. There is a general trend for regulators to apply requirements on a case-by-case basis over and above generally mandated levels. Regulators are also increasingly considering regulatory approaches to insurance companies based on concepts recently applied to banks, including stricter requirements for directors and senior management and use of skilled person reviews and resolution and recovery frameworks. The regulatory changes and the manner in which they are implemented could increase the costs of doing business, reduce access to liquidity and limit the scope of permissible activities. While these changes will impact the entire industry, they could alter the competitive balance and could impact the Group more than some of its competitors.

In addition to any changes impacting the business, the Group may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to applicable insurance laws or regulations. This may also require management to divert significant time and attention to the implementation of such changes and/or transitional arrangements, potentially to the detriment of the day-to-day running of the business. Although the Group monitors consultations and takes steps to assess the impact of proposed changes, the Group cannot predict the exact timing, form or extent of any future regulatory or accounting initiatives or prospective or retrospective legislative changes.

The regulation of insurance business in Europe is largely based on the requirements of relevant EU directives. Inconsistent implementation and interpretation of directives by governments and regulatory authorities in different Member States (particularly more onerous implementation and interpretation in some or all of the jurisdictions in which the Group operates) may place the Group at a competitive disadvantage to other European insurers or financial services groups established in other Member States and insurers or financial services groups headquartered outside the EU.

Moreover, there is an increasing trend for local regulators to demand that capital is held in local entities. Higher levels of regulatory capital required to be held in insurance subsidiaries outside the UK may reduce the amount of capital held in the UK and, were the Group required to hold additional capital in the UK as a result, it could have the effect of increasing the amount of capital needed overall and potentially require the Group to undertake further action to increase its capital.

Solvency II Directive will impose new risk-based capital requirement on the Group

The Solvency II Directive, which will impose new risk-based capital requirements on European-domiciled companies, was formally approved by the European Parliament in 2009. Following the agreement on Omnibus II (as defined in "*Regulatory Environment–EU and EEA Regulatory Environment*"), Solvency II is expected to come into force on 1 January 2016. The Group is in the process of implementing Solvency II.

As currently provided for in Solvency II, insurers will be permitted to calculate solvency capital requirements by using a detailed standard formula approach or by developing their own internal model, which must be approved by the relevant regulator(s). There is continued uncertainty regarding the impact of Solvency II on insurance companies. Delegated acts, implementing technical standards and guidance setting out the final rules will be produced by the European Commission and the European Insurance and Occupational Pensions Authority during 2014 and 2015 to attempt to clarify the uncertainty surrounding a number of issues on a wide range of topics. Since the requirements of Solvency II are still being finalised, there is a risk that the final Solvency II requirements may differ from the draft legislation and lead to increases in the capital required to support the RSA insurance business. The PRA has announced plans to assess the appropriateness of the capital requirement generated by internal models by using "Early Warning Indicators". If the Group does not meet the PRA's expectations in relation to these Early Warning Indicators, there is a risk that the PRA may intervene. In addition, regulators may issue guidance and other interpretations of applicable requirements, which could require further adjustments by the Group to its calculations of applicable requirements in the future. Although the Group expects to be able to obtain approval for its internal model on

a timely basis, there is a risk that the Group's internal model will not be approved and/or modifications may be required which would increase the Group's capital requirements. In addition, if the Group's internal model is not approved and the standard formula is applied, this may lead to materially higher capital requirements than would be required using an internal model, resulting in less capital to be reinvested in the business or available for distribution to shareholders. Shortfalls under Solvency II would need to be covered by Tier 1 equity capital, rather than by debt.

The Group's risk management policies and procedures may leave the Group exposed to unidentified or unanticipated risks, which could have a material adverse effect on its business, financial condition, results of operations

The Group continually reviews its risk management policies and procedures and will continue to do so in the future. Many of the Group's methods of managing risk and exposures are based upon observed historical market behaviour and statistic-based historical models. As a result, these methods may not predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, clients, catastrophe occurrence, or other matters that are publicly available or otherwise accessible to the Group. This information may not always be accurate, complete, up-to-date or properly evaluated. The Group's risk management methods reflect certain assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators. In times of market turmoil or other unforeseen circumstances, similar to those that occurred during 2008 and 2009, previously uncorrelated indicators may become correlated, or previously correlated indicators may move in different directions. These types of market movements may limit the effectiveness of the Group's risk management methods.

The Group faces significant competition from other global, national and local insurance companies and from self-insurance

The Group competes with global, national and local insurance companies, including direct writers of insurance coverage as well as non-insurance financial services companies, such as banks and broker-dealers. Some of these competitors are larger than the Group and have greater financial, technical and operating resources and others have lower cost bases, enabling their pricing to be more competitive. The general insurance industry is highly competitive on the basis of price, service and coverage and is experiencing ongoing changes in distribution in many of the markets in which it operates. There are many companies competing for the same insurance customers in the geographic areas in which the Group operates. If the Group's competitors price their premiums at a lower level than the Group and the Group matches their pricing, this may have a material adverse effect on the Group's underwriting results. In addition, if competitors attract current or potential policyholders from the Group in areas in which the Group wishes to compete, the Group's operating and financial performance may be materially adversely affected.

In addition, developments in the general insurance industry, particularly the rapid growth of price comparison websites in certain of the Group's markets, have made it easier for consumers to compare the premiums and terms offered by various insurance providers. Price comparison websites have also enabled the entry into the market of niche private insurers by allowing them to reach a large number of potential customers without incurring significant upfront marketing costs. This transparency is also driven by the increasing use of social media and mobile smart devices fuelling access to instant information. If additional competitive pressure compels the Group to reduce premiums further, its operating margins and underlying results may be materially adversely affected. The Group also faces competition from self-insurance in the commercial insurance area, with many of the Group's customers and potential customers examining self-insurance as an alternative to traditional insurance.

The Group's business depends on brokers, agents and other intermediaries, some of whom also act for the Group's competitors, to distribute its products; the loss of business provided by such brokers and agents or a failure by them to fulfil their payment obligations could have a material adverse effect on its financial performance

The Group relies on brokers, other intermediaries and agents to distribute many of its products. Independent brokers are not committed to recommend or sell the Group's products. As such brokers and intermediaries represent more than one insurance company, the Group faces competition within such brokerages. Consequently, the Group's relationships with its brokers are important and the failure, inability or unwillingness of brokers to market the Group's products could have a material adverse effect on its results of operations. The Group operates in a competitive market and relationships with brokers are important; if a broker demands higher commissions or a greater share of revenues, this could have a material adverse effect on the Group's results of operations.

In addition, brokers, other intermediaries and agents distributing the Group's products pose a credit risk to the Group. In accordance with industry practice, the Group at times pays amounts owed on claims under its policies to distributors and these distributors, in turn, pay these amounts to the clients that have purchased insurance from the Group. If a distributor fails to make such a payment, it is possible that the Group will be liable to the client for the deficiency because of local laws or contractual obligations. Likewise, in certain jurisdictions, when the insured pays premiums for these policies to distributors for subsequent payment to the Group, these premiums might be considered to have been paid and the insured will no longer be liable to the Group for those amounts, whether or not the Group actually received the premiums from the distributor. Consequently, the Group assumes a degree of credit risk associated with distributors around the world. Resultant losses may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's results of operations, financial condition, profitability and liquidity may be impacted by the inability of the Group to obtain reinsurance and/or by the failure of the Group's reinsurers to meet their obligations

The Group transfers exposure to certain risks to others through reinsurance arrangements, which it typically renews on an annual basis. Under the Group's arrangements, other insurers assume a portion of the losses and expenses associated with reported and unreported losses in exchange for a portion of policy premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Any decrease in the amount of the Group's reinsurance will increase the Group's risk of loss. While there is a relatively low probability that the Group will be unable to obtain any reinsurance, were such risk to materialise it would significantly increase the Group's exposure to losses and may have a material adverse effect on the Group's financial condition and results of operations.

When the Group obtains reinsurance, it remains primarily liable for the reinsured risks without regard to whether the reinsurer meets its reinsurance obligations to the Group. Therefore, the Group is exposed to disputes on, and defects in, contracts with its reinsurers, challenges to claims asserted against reinsurers and the possibility of default by its reinsurers, which could have a material adverse effect on the Group's financial condition, results of operations and cash flows. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance capacity constraints. The Group, and insurers generally, are exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market, capacity constraints and the restricted range of reinsurers that have acceptable credit ratings. The Group is also exposed to any systemic failure in the reinsurance market.

Reinsurance recoverables are a significant credit risk to the Group. Collectability of reinsurance is largely a function of the solvency of reinsurers. A reinsurer's insolvency, or inability or refusal to make payments under

the terms of any of its agreements with a member of the Group, could have a material adverse effect on the Group.

The Group may accept excessive risks, or may misprice risks that it assumes, which may result in significant underwriting losses, and may not appropriately manage the risks that it undertakes

The Group is in the business of underwriting risks. Underwriting is a matter of judgement, involving important assumptions about matters that are inherently unpredictable and beyond the Group's control and for which historical experience and statistical analysis may not provide sufficient guidance. The Group's results depend in large part upon the extent to which actual claims experience is consistent with the assumptions that it uses in setting the prices for its products. It is not possible to predict with certainty whether a single risk or a portfolio of risks underwritten by the Group will result in a loss, or the timing and severity of any loss that does occur. The Group may fail to accurately assess the risks it underwrites, the Group's underwriters may fail to comply with internal guidelines on underwriting, or events or circumstances may cause the past risk assessment to be incorrect, and the premiums that the Group receives for accepting such risks may not adequately compensate it. In addition, it is possible that despite the Group's best efforts, losses may aggregate in ways that were not anticipated. Adverse development can be experienced for significant periods of time. Acceptance of excessive risks or mispriced risks will likely result in lower reported earnings (or net losses) in a future period.

Failure by the Group to manage the risks that it undertakes could have a material adverse effect on the Group's financial condition and results of operations.

Disposals and other corporate transactions undertaken by the Group may not realise expected benefits

The Group has undertaken and expects to undertake a series of disposals of selected businesses and intends to increase focus on a smaller number of core markets. The disposal processes are at various stages of progression and, while some disposals have already been agreed and/or completed, the precise timing for, terms of and proceeds to be raised from, other potential disposals have yet to be determined. These disposals are subject to execution risk and may fail to materialise, and the proceeds received from them may not reflect values that management believes are achievable and/or may cause substantial accounting losses (particularly if the disposals are done in difficult market conditions), each of which may result in the Group failing to raise additional regulatory capital and achieve the anticipated enhancement to its capital position. In addition, disposals of businesses, which may be cash generative and profitable, may adversely affect the Group's cash flows in the short term until the medium to long term strategic benefits are realised. Preparation of businesses for disposal, and the disposal process more generally, may divert management time and attention away from the operation of the business in the ordinary course and may be disruptive to the business. In addition, customers of businesses under review or to be disposed of may dislike the disruption and/or uncertainty associated with the disposal process and may take their business elsewhere, which may in turn result in the Group receiving less by way of proceeds for the sale of such businesses.

The Group has acquired and may in the future acquire businesses as part of its normal operations and optimisation of its business portfolio. The Group does not envisage making any such acquisitions in the near term. To the extent that it decides to do so in the future, the Group may not be able to identify and complete appropriate acquisitions, on acceptable terms or on a timely basis. The integration of any future acquisition may not be successful or in line with the Group's expectations and the acquired business may fail to achieve in the near or long term the financial results projected or the strategic objectives of the relevant acquisition (such as cost savings or synergies). Inability to realise expected benefits from the transactions may affect the Group's results of operations. Acquisitions can also place a strain on Group-wide internal control systems and management resources.

The Group is exposed to risks in relation to its investments

The Group is exposed to market risk (which includes the risk of potential losses from adverse movements in market rates and prices including interest rates, credit spreads, equity prices, property prices and foreign currency exchange rates) and credit risk (which includes non-performance of contractual payment obligations on invested assets and changes in the creditworthiness of invested assets such as exposures to issuers or counterparties for bonds, equities, deposits and derivatives) on its invested assets. Fluctuations in the fixed income or equity markets and contractual non-performance in respect of, or changes in the creditworthiness of, invested assets could have a material adverse effect on the Group's financial condition, results of operations and cash flows.

Fluctuations in interest rates affect returns on and the market values of the Group's fixed income investments. Interest rates are typically subject to factors beyond the Group's control. Generally, investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are redeemed prior to their maturity date, mature or are sold and the proceeds reinvested at lower rates. Low interest rates prevailing over the last few years have made it more difficult for insurance companies, such as the Group, to maintain investment returns and the persistence of the low interest rate environment will continue to put downward pressure on the Group's investment returns.

While the Group has disposed of most of the ordinary equity securities in its investment portfolio, it retains exposure to some equity investments in unlisted companies, which are less liquid than investments in listed equity securities. The Group also retains exposure to some equity securities indirectly through assets held by the Group's defined benefit pension schemes. Moreover, the Group in the future could reassess its asset mix and elect to increase its direct exposure to equity securities. Equities are generally subject to greater risks and more volatility than fixed income securities.

The Group also invests in a portfolio of properties that are subject to property price risk arising from changes in the market value of properties. If the value of property falls, so will the fair value of the portfolio, which would reduce the Group's resources.

Low investment returns, caused in the current economic environment largely by low interest rates, can have a variety of effects. In addition to the impact on the Group's earnings, low returns can impact solvency capital, and can also impact, particularly if underwriting results are under pressure, the Group's ability to fund growth in markets that have the potential in the current insurance cycle to be more profitable.

In addition, a lack of pricing transparency, market liquidity, declines in equity prices, and foreign currency movements, alone or in combination, could have a material adverse effect on the Group's results of operations and financial condition through realised losses, impairments or changes in unrealised gains positions.

From time to time, the Group uses hedging, forward contracts and derivative instruments to reduce its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets. Any failure by any of the Group's counterparties to discharge their obligations or to provide adequate collateral if and when required could have a material adverse effect on the Group's financial condition, results of operations and cash flows.

The Group derives the majority of its net written premium and underwriting result from markets outside the United Kingdom and changes in inflation and foreign exchange rates may impact the Group's results

The Group operates in a number of markets with different currencies, and publishes its consolidated financial statements in pounds sterling. The Group incurs both currency transaction risk and currency translation risk by underwriting liabilities and transacting generally in currencies other than the currency of the primary environment in which the business units operate and by investing in overseas subsidiaries and non-pound

sterling-denominated assets. Fluctuations in exchange rates used to translate other currencies from around the world into pounds sterling could have a material adverse effect on the Group's financial condition, results of operations and cash flows. These fluctuations in exchange rates will also impact the pound sterling value of the Group's investments and the return on its investments in pounds sterling, as well as the pound sterling value of dividends received in currencies other than pounds sterling from operating subsidiaries in overseas jurisdictions. The Group currently hedges some of its currency exposures using currency forward contracts and foreign exchange options. However, hedging transactions do not eliminate the exchange rate risk entirely, and may not be fully, or at all, effective.

Changes in foreign exchange rates can also have an impact on the adequacy of reserves and insurance liabilities.

Funding and liquidity risks are inherent in the Group's operations

Liquidity risk is the risk that the Group does not have sufficient financial liquid resources to meet its insurance and other obligations when they fall due or will have to do so at excessive cost.

While the Group holds a significant portfolio of assets that are available to generate funds through either outright sale or sale and repurchase arrangements with other market participants, depositories or central banks, and has access to a £500 million revolving credit facility, the Group's ability to access funding sources on favourable economic terms or to liquidate its assets to satisfy claims or for other purposes (for example, to refinance existing indebtedness at call dates or at maturity) is dependent on a variety of factors, including a number of factors that are outside its control, such as general market conditions and confidence in the global banking system. The capital and credit markets may be subject to periods of extreme volatility and disruption, which could cause the Group's liquidity and credit capacity to be constrained. Moreover, a downgrade in the credit ratings of the Group may adversely affect the Group's liquidity position (for example, by triggering a need for posting collateral), as well as increase the cost of raising sufficient liquidity.

The Group's ability to meet liquidity and/or fungibility needs, and its subsidiaries' ability to pay dividends, may also be constrained by regulations that require its regulated entities or overseas branches to maintain or increase regulatory capital (on a statutory equity basis) or that restrict the flow of intra-group funds, by the timing of dividend payments from subsidiaries or by the fact that certain assets may be encumbered or otherwise non-tradeable. The Group may have adequate capital on a consolidated group basis, but a need for liquidity (cash or liquid assets that can be converted to cash, to meet financial obligations) could arise in a particular legal entity and the Group's ability to access group liquidity for that entity may be limited by legal, tax or regulatory constraints on the flow of intra-group funds. In addition, insurance groups with operations in multiple jurisdictions face the prospect of inconsistent approaches as between group and solo regulation, and as a result the Group may be required to maintain higher levels of capital in any particular entity to satisfy applicable local requirements, which may have the effect of increasing the Group's overall capital requirement.

The cyclical nature of the general insurance industry may cause fluctuations in the Group's results

Historically, the general insurance industry has been subject to cyclical patterns, particularly since demand for property and casualty insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. In the past, this has caused significant cyclical fluctuations and volatility in the results of operations of general insurers. Many of the factors contributing to these cyclical patterns are beyond the direct control of any insurer and therefore unpredictable as to timing and consequence, such as: changes in the macroeconomic environment (including economic downturns) as well as conditions in the credit and other capital markets, which can affect the Group's returns on its investments; the timing and/or severity of weather-related or other catastrophic events, which can affect the Group's claims

and/or losses; changes in the levels of insurance and reinsurance underwriting capacity; and changes in the level and effect of competition.

In periods when the price of risk is high, the high profitability of selling insurance attracts new entrants and hence new capital into the market. However, increased competition drives premiums down, which may result in lower revenues for the Group. Eventually the business becomes uneconomic and some competitors, suffering from losses, reduce exposures or exit the market, resulting in lower capital invested within the market. Decreased competition leads to increasing prices, thereby repeating the cycle. The Group is exposed to such cyclical effects, including the need to increase or decrease policy prices to remain profitable and/or competitive, which could have a material adverse effect on the Group's financial condition, results of operations and cash flows. The Group's various property and casualty business lines are not always at the same stage of the cycle. The adverse effect of cyclicality can be exacerbated if multiple factors fail to offset one another. Cyclicality affects both lines of business and geographies.

The unpredictability and competitive nature of the general insurance business historically has contributed to significant quarter-to-quarter and year-to-year fluctuations in underwriting results and net earnings in the industry generally and to volatility in the Group's results of operations and financial condition. During periods of low interest rates (as is currently the case), the effects of cyclicality in factors affecting underwriting results can have a further, more pronounced effect on net earnings.

The Group may, from time to time, be subject to litigation, inquiries or investigations that could divert management time and resources and result in fines, sanctions, variation or revocation of permissions and authorisations, reputational damage or loss of goodwill

The Group, in common with the insurance industry in general, is involved in, and may become involved in, legal proceedings (including class actions) that may be costly if they are not determined in the Group's favour and that may divert management's attention away from the running of the business. In the ordinary course of the Group's insurance activities, it is routinely involved in legal, mediation and arbitration proceedings with respect to liabilities which are the subject of policy claims.

In recent years, the insurance industry has been the focus of increased regulatory scrutiny as regulators in a number of jurisdictions in which the Group operates have conducted inquiries and investigations into the products and practices of the financial services industries. The Group is also subject to regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business in many of the jurisdictions in which it operates. For example, the Group remains subject to increased scrutiny and investigation by the Central Bank of Ireland as a result of the inappropriate collaboration among a small number of senior executives resulting in claims and financial irregularities with respect to the Irish business. The Group may be subject to sanctions (including regulatory fines) in connection with the losses uncovered. The impact of these inquiries and investigations may be difficult to assess or quantify. The regulatory authorities conducting such inquiries or investigations may seek to impose significant fines, sanctions and/or customer redress. In addition, such inquiries or investigations could result in adverse publicity for, or negative perceptions regarding, the Group or they could affect its relations with current and potential customers, as well as divert management's attention away from the day-to-day management of the Group's business.

In the United Kingdom, the FCA and the PRA, the Group's primary regulatory authorities, have broad regulatory powers dealing with all aspects of insurers' business activities including, amongst other things, the authority to grant and, in specific circumstances, to vary or cancel permissions, regulate marketing and sales practices and require an insurance company to maintain adequate financial resources. The FCA and/or the PRA may, from time to time, make enquiries of insurance companies regarding compliance with particular regulations and conduct reviews into certain products, selling practices or other aspects of UK insurers' businesses, including those of the Group. These could be a review of products sold in the past under

previously acceptable market practices at the time (for example, the FCA recently investigated add-ons in the general insurance industry and found that they tend to represent poor value for money for customers and has proposed a series of measures intended to change market practice in respect of such add-ons).

Regulatory authorities in other jurisdictions have similar power and, as a result, the Group also faces similar risks in such jurisdictions. In each case, the impact of the Group being found to be non-compliant with business activity regulation is difficult to assess or quantify, but regulatory proceedings could result in a public reprimand, substantial monetary fines or other sanctions which could have a material adverse effect on the Group's financial condition, results of operations and cash flows.

Losses or financial penalties resulting from any current or threatened legal or regulatory actions may have a material adverse effect on the Group's financial condition, results of operations and cash flows. In addition, if the Group fails to identify and eliminate potential mis-selling practices or to effectively manage and reduce the risk of mis-selling, the Group may be exposed to financial or reputational risk.

In addition, various jurisdictions in which the Group operates have created consumer compensation schemes that require mandatory contributions from market participants. Although the Group's past contributions to such schemes were not material, circumstances may arise when contributions to compensation schemes could be substantially higher than expected. In addition, to the extent that legal decisions in any of the jurisdictions in which the Group operates increase awards payable by the Group, the impact of which may be applied prospectively or retrospectively, claims provisions may prove insufficient to cover actual claims, claims adjustment expenses or future policy benefits. In such event, or where the Group has previously estimated that no liability would apply, the Group would have to increase its claims provisions and incur a charge to its earnings. Such insufficiencies could have a material adverse effect on the Group's financial condition, results of operations and cash flows.

Factors which are material for the purpose of assessing the market risks associated with the Notes

Risks related 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 subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of (i) a winding-up of the Issuer or (ii) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the payment obligations of the Issuer under the Notes will be subordinated to the claims of all Senior Creditors of the Issuer but will rank at least *pari passu* with all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and will rank in priority to the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital and all claims of holders of all classes of share capital of the Issuer.

Although the Notes may pay a higher rate of interest 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.

The Guarantor's obligations under the Notes are subordinated

The Guarantor's obligations under the Notes will constitute direct, unsecured and subordinated obligations of the Guarantor. In the event of (i) a winding-up of the Guarantor or (ii) an administrator of the Guarantor is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the payment obligations of the Guarantor under the Notes will be subordinated to the claims of all Senior Creditors of the Guarantor (which includes, *inter alia*, any policyholders of the Guarantor) but will rank at least *pari passu* with all other subordinated obligations of the Guarantor which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and will rank in priority to the claims of holders of all obligations of the Guarantor which constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital and all claims of holders of all classes of share capital of the Guarantor.

There is a significant risk that an investor in the Notes will lose all or some of its investment should the Guarantor become insolvent.

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

Other than in the circumstances set out in Condition 3.2 and without prejudice to Condition 11.3(a), all payments by the Issuer under or arising from the Notes and 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 and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the "**Issuer Solvency Condition**"). For these purposes, the Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors of the Issuer and Pari Passu Creditors of the Issuer as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors of the Issuer). If any payment of interest, Arrears of Interest and/or principal cannot be made by the Issuer in compliance with the Issuer Solvency Condition, payment of such amounts will be deferred, and such deferral will not constitute a default under the Notes for any purpose.

In addition, other than in the circumstances set out in Condition 4.3 and without prejudice to Condition 11.3(b), all payments under or arising from the Guarantee shall be conditional upon the Guarantor being solvent at the time for payment by the Guarantor, and no amount shall be payable under or arising from the Guarantee unless and until such time as the Guarantor could make such payment and still be solvent immediately thereafter (the "**Guarantor Solvency Condition**"). For these purposes, the Guarantor will be solvent if (i) it is able to pay its debts owed to Senior Creditors of the Guarantor (which includes, *inter alia*, any policyholders of the Guarantor) and Pari Passu Creditors of the Guarantor as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors of the Guarantor). If any payment of Guaranteed Amounts in respect of interest, Arrears of Interest and/or principal cannot be made by the Guarantor in compliance with the Guarantor Solvency Condition, payment of such amounts will be deferred, and such deferral will not constitute a default under the Notes or the Guarantee for any purpose.

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

The Issuer may, on any Optional Interest Payment Date, elect to defer payments of interest on the Notes. In addition, the Issuer is required to defer any payment of interest on the Notes (i) in the event that it cannot make such payment in compliance with the Issuer Solvency Condition or (ii) on each Mandatory Interest Deferral Date (being an Interest Payment Date (i) in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made by the Issuer on such Interest Payment Date or (ii) where payment of interest on that date would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital).

The Issuer is only required to pay interest on the Notes on any Interest Payment Date (unless such date is a Mandatory Interest Deferral Date or the Issuer could not make such payment in compliance with the Issuer Solvency Condition) where, during the six months ended on such Interest Payment Date, a Compulsory Interest Payment Event has occurred, including if the Issuer has declared, paid or made a dividend or distribution to its ordinary shareholders. The Issuer has absolute discretion not to declare a dividend on its ordinary shares, and its ability to declare a dividend is dependent on a number of factors, including its financial condition and performance, the amount of its distributable profits and reserves on an unconsolidated basis, its capital requirements, applicable restrictions on the payment of dividends under applicable laws and regulations and such other factors as the Issuer's board of directors may deem relevant.

The Guarantor may, on any Guarantor Optional Interest Payment Date, elect to defer payments of Guaranteed Amounts in respect of interest on the Notes. In addition, the Guarantor is required to defer any payment of Guaranteed Amounts in respect of interest on the Notes (i) in the event that it cannot make such payment in compliance with the Guarantor Solvency Condition or (ii) on each Guarantor Mandatory Interest Deferral Date (being any date (i) in respect of which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment was made by the Guarantor on such date or (ii) where payment of any Guaranteed Amounts in respect of interest on that date would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital).

The deferral of interest (or Guaranteed Amounts in respect of interest) as described above does not constitute a default under the Notes or the Guarantee for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by the Issuer or the Guarantor at any time upon notice to Noteholders, but in any event shall be payable, subject to satisfaction of the Issuer Solvency Condition (in respect of payment by the Issuer) or the Guarantor Solvency Condition (in respect of payment by the Guarantor), (i) by the Issuer on the earliest to occur of (a) the next Interest Payment Date which is not a Mandatory Interest Deferral Date on which payment of interest in respect of the Notes is made or is required to be made (other than a voluntary payment by the Issuer of any Arrears of Interest), (b) an Issuer Winding-Up or (c) any redemption of the Notes pursuant to Condition 8 or Condition 11, or (ii) by the Guarantor on the earliest to occur of (a) the next Interest Payment Date which is not a Guarantor Mandatory Interest Deferral Date on which payment of Guaranteed Amounts in respect of interest is made or is required to be made (other than a voluntary payment by the Guarantor of any Arrears of Interest), (b) a Guarantor Winding-Up or (c) redemption of the Notes by or on behalf of the Issuer pursuant to Condition 8 or Condition 11.

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

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

Notwithstanding the expected maturity of the Notes on the Maturity Date, the Issuer must defer redemption of the Notes on the Maturity Date or on any other date set for redemption of the Notes pursuant to Conditions 8.5, 8.6 and 8.7 (i) in the event that it cannot make the redemption payments in compliance with the Issuer Solvency Condition, (ii) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed by the Issuer on such date or (iii) where redemption would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital.

In addition, the Guarantor must defer the payment of any Guaranteed Amounts in connection with the redemption of the Notes (i) in the event that it cannot make such payment in compliance with the Guarantor

Solvency Condition, (ii) if a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if such payments were made by the Guarantor on such date or (iii) where making payment of any Guaranteed Amounts in connection with the redemption of the Notes would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital.

The deferral of redemption of the Notes or the payment of Guaranteed Amounts in respect of redemption of the Notes does not constitute a default under the Notes or the Guarantee for any purpose. Where redemption of the Notes is deferred, subject to certain conditions (including satisfaction of the Issuer Solvency Condition in the case of payments by the Issuer or satisfaction of the Guarantor Solvency Condition in the case of payments by the Guarantor), (i) the Notes will be redeemed by the Issuer on the earliest of (a) the date falling 10 Business Days following cessation of the Regulatory Deficiency Redemption Deferral Event, (b) the date falling 10 Business Days after the PRA has agreed to the repayment or redemption of the Notes or (c) the date on which an Issuer Winding-Up occurs, or (ii) the Guarantor will pay Guaranteed Amounts in respect of the redemption by the Issuer of the Notes on the earliest of (a) the date falling 10 Business Days following cessation of the Guarantor Regulatory Deficiency Redemption Deferral Event, (b) the date falling 10 Business Days after the PRA has agreed to the payment of such amounts by the Guarantor or (c) the date on which a Guarantor Winding-Up occurs.

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

Early redemption

The Notes may, subject as provided in Condition 8, at the option of the Issuer, be redeemed at their principal amount, together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption, before the Maturity Date (i) on any Interest Payment Date falling on or after the First Call Date, (ii) in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof or (iii) following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event (provided that, (a) in the case of a Ratings Methodology Event, the Notes will not be redeemed prior to the fifth anniversary of the Issue Date and (b) in the case of any redemption prior to the fifth anniversary of the Issue Date, the approval of the PRA is required and the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality (unless Solvency II is implemented without such requirements)).

A Capital Disqualification Event will occur if, as a result of any replacement of or change to (or change to the interpretation by any court or authority entitled to do so of) Solvency II or the Relevant Rules or following the implementation of Solvency II, the Notes cease to qualify in full for recognition in the capital resources of the Issuer, the Guarantor and/or the Group. As discussed in greater detail in the section of this Prospectus entitled "*Regulatory Environment*", the Solvency II framework for insurance companies will take effect from 1 January 2016. This will, amongst other things, set out features which any instruments (including subordinated notes) must have in order to qualify as regulatory capital. These features may be different and/or more onerous than those currently applicable to insurance companies in the United Kingdom and contained in the Notes. The details of these features will be the subject of delegated acts which are expected to be submitted in September to the European Parliament and are not yet in the public domain. Accordingly, there is a risk that after the issue of the Notes, a Capital Disqualification Event may occur which would entitle the Issuer, with

the consent (or non-objection) of the PRA if then required by the PRA, to redeem the Notes early at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest.

The redemption at the option of the Issuer on or after the First Call Date may limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise above the price at which they can be redeemed. This may also be true prior to the First Call Date.

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

Restricted remedy for non-payment when due

The sole remedy against each of the Issuer and the Guarantor available to the Trustee or (where the Trustee has failed to proceed against the Issuer or the Guarantor as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes or the Guarantee will be the institution of proceedings for the winding-up in England and Wales (but not elsewhere) of the Issuer or the Guarantor and/or proving in any winding-up or in any administration of the Issuer or the Guarantor and/or claiming in the liquidation of the Issuer or the Guarantor.

Non-payment by the Issuer of any amounts when due or the occurrence of any Issuer Winding-Up will not, of itself, render the Notes immediately due and payable at their principal amount by the Guarantor, and conversely non-payment by the Guarantor of any amounts when due or the occurrence of a Guarantor Winding-Up will not, of itself, render the Notes immediately due and payable at their principal amount by the Issuer. In circumstances where the Issuer fails to make a payment when due or an Issuer Winding-Up occurs but the Guarantor does not default in its obligations, the Guarantor will continue to service the Notes (the principal amount of which may be reduced by amounts recovered in the winding-up, administration or liquidation of the Issuer in accordance with Condition 3.3) in place of the Issuer as if the Issuer default had not occurred, in accordance with Condition 4.5. Conversely, in circumstances where the Guarantor fails to make a payment when due or a Guarantor Winding-Up occurs but the Issuer does not default in its obligations, the Issuer will continue to service the Notes (the principal amount of which may be reduced by amounts recovered in the winding-up, administration or liquidation of the Guarantor in accordance with Condition 4.4) as if the Guarantor default had not occurred, in accordance with Condition 11.3(b).

Modification and waivers

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that, subject to the satisfaction of the Regulatory Clearance Condition, the Trustee may, without the consent of Noteholders, agree to any modification of, or to the waiver or

authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed in the circumstances described in Condition 15.

Substitution of obligors and transfer of business

The Conditions provide that the Trustee may, without the consent of the Noteholders, agree to the substitution of another company as principal debtor or guarantor under the Notes in place of the Issuer, or, as the case may be, the Guarantor in the circumstances described in Condition 14.

In addition, Condition 16 provides that the Guarantor may transfer the whole or a substantial part (being any part which represents 50 per cent. or more of the liabilities (where the amount of the liabilities of the Guarantor is deemed to mean the same as the technical provisions of the Guarantor, net of reinsurance) relating to policies underwritten by the Guarantor) of its business, without any prior approval from the Trustee or the Noteholders, to a successor in certain circumstances provided that all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee are included in the transfer.

No limitation on issuing senior or pari passu securities

There is no restriction on the amount of securities which the Issuer or the Guarantor may issue or guarantee, which securities or guarantees rank senior to, or *pari passu* with, the Notes or the Guarantee (as applicable). The issue or guarantee of any such securities may reduce the amount recoverable by Noteholders on a winding-up of the Issuer or the Guarantor, as the case may be, and/or may increase the likelihood of a deferral of interest payments under the Notes. Accordingly, in the winding-up of the Issuer and/or the Guarantor and after payment of the claims of their respective senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders.

Change of law

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

Risks related to the market generally

Absence of public markets for the Notes

The Notes constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the Notes. Although application has been made for the Notes to be admitted to the Official List and to trading on the Market, there can be no assurance that an active public market for the Notes will develop and, if such a market were to develop, the Joint Lead Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Notes can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Guarantor and other factors that generally influence the market prices of securities.

Exchange rate risks and exchange controls

Payments of principal and interest on the Notes will be made in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to sterling would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that

could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

The Notes bear interest at a fixed rate up to (but excluding) the First Call Date. An investment in the Notes during that time involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Payments on the Notes may be subject to FATCA Withholding

Certain provisions of U.S. law, commonly known as "**FATCA**", impose a new reporting and withholding regime with respect to (i) certain U.S. source payments, (ii) gross proceeds from the disposition of property that can produce U.S. source interest and dividends and (iii) certain payments made by, and financial accounts held with, entities that are classified as foreign financial institutions for purposes of FATCA. Whilst the Notes are in global form and held within Euroclear or Clearstream, Luxembourg (together, the "**ICSDs**"), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs However, FATCA may affect payments made to custodians or intermediaries (including any clearing system other than the ICSDs) in the payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives a payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation implementing an intergovernmental agreement entered into pursuant to FATCA, if applicable), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's and the Guarantor's obligations under the Notes are discharged once it has paid the Common Depositary for the ICSDs and neither the Issuer nor the Guarantor has therefore any responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

A holder may be subject to the provisions of the EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for the benefit of, an individual resident or certain limited types of entity established in that other EU Member State; however, for a transitional period, Austria and Luxembourg will instead apply a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

Luxembourg has announced its intention to elect out of the withholding tax system as from 1 January 2015 in favour of an automatic exchange of information.

The Council of the European Union formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive, when implemented, will amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with the Amending Directive by 1 January 2016, which legislation must apply from 1 January 2017. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income

payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

Investors who are in any doubt as to their position should consult their professional advisers.

Credit ratings may not reflect all risks

The credit ratings assigned to the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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.

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

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

While the Notes are represented by the Global Certificate, each of the Issuer and the Guarantor will discharge its payment obligations under the Notes by making payments to or to the order of the registered holder as nominee for the Common Depositary for Euroclear or Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. Neither the Issuer nor the Guarantor has responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2012, together with the audit report thereon, as set out on pages 75 to 79 and 103 to 136 of the Issuer's Annual Report and Accounts 2012 (the "**Issuer's 2012 Annual Financial Statements**");

(b) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2013, together with the audit report thereon, as set out on pages 95 to 103 and 127 to 165 of the Issuer's Report and Accounts 2013 (the "**Issuer's 2013 Annual Financial Statements**" and, together with the Issuer's 2012 Annual Financial Statements, the "**Issuer's Annual Financial Statements**");

(c) the unaudited consolidated interim financial statements of the Issuer for the half year ended 30 June 2014, as set out on pages 34 to 48 of the Issuer's 2014 Interim Results dated 7 August 2014 (the "**Issuer's Interim Financial Statements**"), together with page 15 of the Issuer's Interim Financial Statements;

(d) the audited unconsolidated financial statements of the Guarantor for the financial year ended 31 December 2012, together with the audit report thereon, as set out on pages 7 to 49 of the Guarantor's Annual Report and Accounts for the year ended 31 December 2012 (the "**Guarantor's 2012 Annual Financial Statements**");

(e) the audited unconsolidated financial statements of the Guarantor for the financial year ended 31 December 2013, together with the audit report thereon, as set out on pages 9 to 50 of the Guarantor's Annual Report and Accounts for the year ended 31 December 2013 (the "**Guarantor's 2013 Annual Financial Statements**" and, together with the Guarantor's 2012 Annual Financial Statements, the "**Guarantor's Financial Statements**"); and

(f) the bullet point entitled "Focus on underwriting result" in Section 3 of Part VI and Sections 8.1 and 8.2 of Part VII of the rights issue prospectus published by the Issuer on 25 March 2014 (the "**Rights Issue Prospectus**") at pages 95-96 and 167-169,

which have been previously published or are published simultaneously with this Prospectus and which have been approved by the UK Financial Conduct Authority (or its predecessor, the UK Financial Services Authority) or filed with it. 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. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

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

TERMS AND CONDITIONS OF THE NOTES

The following is the text (save for paragraphs in italics) of the Terms and Conditions of the Notes which (subject to modification) will be endorsed on the Certificates issued in respect of the Notes:

The £400,000,000 Fixed Rate Reset Guaranteed Subordinated Notes due 2045 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 18 and forming a single series with the Notes) of RSA Insurance Group plc (the "**Issuer**") are constituted by a Trust Deed dated 10 October 2014 (the "**Trust Deed**") made between the Issuer, Royal & Sun Alliance Insurance plc (the "**Guarantor**") as guarantor and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 10 October 2014 (the "**Agency Agreement**") made between the Issuer, the Guarantor, Deutsche Bank Luxembourg S.A. (the "**Registrar**", which expression shall include its successor(s)) as registrar, Deutsche Bank AG, London Branch (the "**Principal Paying Agent**", which expression shall include its successor(s)) as principal paying agent, the other Agents and the Trustee are available for inspection during normal business hours by the Noteholders at the registered office for the time being of the Trustee (being, as at the Issue Date, Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified office of each of the Agents. 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 the Agency Agreement applicable to them.

The owners shown in the records of each of Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1 Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in amounts of £100,000 and higher integral multiples of £1,000 (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). A note 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**").

1.2 Title

Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) 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 in whose name a Note is registered in the Register.

2 Transfers of Notes and Issue of Certificates

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

2.2 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 Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer.

Except in the limited circumstances described in this Prospectus (see "The Global Certificate—Transfers and Exchange"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates.

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

2.3 Formalities free of charge

Registration of transfer of any Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon 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.

2.4 Closed periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, interest or Arrears of Interest on that Note.

2.5 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.

3 Status of the Notes

3.1 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 are subordinated as described in Condition 3.2.

3.2 Subordination

If:

(a) at any time an order is made, or an effective resolution is passed, for the winding-up in England and Wales of the Issuer (except, in any such case, a solvent winding-up solely for the purpose of

a reconstruction or amalgamation of the Issuer, the terms of which reconstruction or amalgamation (A) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (B) do not provide that the Notes or any amount in respect thereof shall thereby become payable); or

(b) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend,

(the events in (a) and (b) each being an "**Issuer Winding-Up**"), the rights and claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee acting on its own account under the Trust Deed) and the Noteholders against the Issuer in respect of or arising under the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder) will be subordinated in the manner provided in the Trust Deed only to the claims of all Senior Creditors of the Issuer and shall rank: (A) at least *pari passu* with all claims of holders of all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and all obligations which rank, or are expressed to rank, *pari passu* therewith ("**Pari Passu Securities of the Issuer**"); and (B) in priority to the claims of holders of (i) all obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith and (ii) all classes of share capital of the Issuer (together, the "**Junior Securities of the Issuer**").

Nothing in this Condition 3.2 or in Condition 3.4 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

3.3 Issuer Recovered Amount

In the event that any payment is made to the Trustee (other than payments made to the Trustee acting on its own account under the Trust Deed) and/or the Noteholders in respect of the claims arising under the terms of the Notes and the Trust Deed by the liquidator or the administrator (as applicable) of the Issuer after the occurrence of an Issuer Winding-Up (any such amount paid, the "**Issuer Recovered Amount**"), any Issuer Recovered Amount shall reduce the amounts payable by the Guarantor under the Guarantee in the following manner:

(a) the Issuer Interest Portion of an Issuer Recovered Amount shall reduce any obligation of the Guarantor to make payment in respect of accrued interest and Arrears of Interest under the Guarantee by an amount equal to the Issuer Interest Portion with effect from (and including) the Issuer Recovered Amount Payment Date; and

(b) the Issuer Non-Interest Portion of an Issuer Recovered Amount shall reduce any obligation of the Guarantor to make payment in respect of principal of the Notes under the Guarantee by an amount equal to the Issuer Non-Interest Portion with effect from (and including) the Issuer Recovered Amount Payment Date, and accordingly interest shall only accrue on and be payable in respect of such reduced principal amount of the Notes from (and including) the Issuer Recovered Amount Payment Date.

3.4 Issuer Solvency Condition

Other than in the circumstances set out in Condition 3.2 and without prejudice to Condition 11.3(a), all payments by the Issuer under or arising from the Notes and the Trust Deed (other than payments made to the Trustee acting on its own account under the Trust Deed) shall be conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable by the Issuer under or arising from the Notes and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the "**Issuer Solvency Condition**").

For the purposes of this Condition 3.4, the Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors of the Issuer and Pari Passu Creditors of the Issuer as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors of the Issuer). A certificate as to solvency of the Issuer signed by two Directors of the Issuer or, if there is a winding-up or administration of the Issuer, by two authorised signatories of 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 Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

3.5 Set-off, etc.

By acceptance of the Notes, each Noteholder and the Trustee, on behalf of 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 whether prior to or in bankruptcy, winding-up or administration. Notwithstanding the preceding sentence, if any of the rights and claims of any Noteholder in respect of or arising under the Notes are discharged by set-off, such Noteholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, if applicable, the liquidator, trustee, receiver or administrator of the Issuer and, until such time as payment is made, will hold a sum equal to such amount on trust for the Issuer or, if applicable, the liquidator, trustee, receiver or administrator in the Issuer's bankruptcy, winding-up or administration. Accordingly, such discharge will be deemed not to have taken place.

4 Guarantee

4.1 Status

The Guarantor has (subject as provided in Conditions 3.3, 4.3, 4.6, 6.3, 6.4 and 8.3) in the Trust Deed irrevocably guaranteed the due and punctual payment of all principal, interest and other sums from time to time which are (or are deemed under Condition 4.2 to be) due and payable by the Issuer in respect of the Notes and all other monies due and payable by the Issuer in respect of or under or pursuant to the Trust Deed ("**Guaranteed Amounts**"). The obligations of the Guarantor under such guarantee (the "**Guarantee**") constitute direct, unsecured and subordinated obligations of the Guarantor.

4.2 Due and payable

For the purpose only of determining whether any Guaranteed Amount is from time to time due and payable by the Issuer for the purposes of the obligations of the Guarantor under the Guarantee, any amount of principal, interest and Arrears of Interest shall be deemed to be due and payable by the Issuer on the Applicable Date regardless of whether the Issuer Solvency Condition under Condition 3.4 is satisfied or any of Conditions 6.1, 6.2, 8.2 or 8.9 apply, provided that, if any such amount is paid by the Guarantor under the Guarantee, such payment by the Guarantor shall be treated (to the extent of the amount paid) as satisfying the Trustee and any Noteholder's right to payment of any such amount under the Trust Deed and the Notes.

For the purposes of this Condition 4.2, "**Applicable Date**" means the date on which any amount of principal, interest and/or Arrears of Interest (i) becomes due and payable by the Issuer or (ii) would have become due and payable by the Issuer had the Issuer not deferred payment of the same in accordance with these Conditions.

4.3 Subordination

If:

(a) at any time an order is made, or an effective resolution is passed, for the winding-up in England and Wales of the Guarantor (except, in any such case, (i) a winding-up following the transfer of all its liabilities and obligations as principal obligor under the Guarantee to a transferee in connection with a transfer of its business pursuant to Condition 16 or (ii) a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Guarantor of a successor in business of the Guarantor, the terms of which reconstruction, amalgamation or substitution (A) have previously been approved in writing by the Trustee or by an Extraordinary Resolution or which is effected in accordance with Condition 14 and (B) do not provide that the Notes or any amount in respect thereof (including under the Guarantee) shall thereby become payable); or

(b) an administrator of the Guarantor is appointed and such administrator gives notice that it intends to declare and distribute a dividend,

(the events in (a) and (b) each being a "**Guarantor Winding-Up**"), the rights and claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee acting on its own account under the Trust Deed) and the Noteholders against the Guarantor in respect of or arising under the Notes and the Trust Deed (including the Guarantee) (including any damages awarded for breach of any obligations thereunder) will be subordinated in the manner provided in the Trust Deed only to the claims of all Senior Creditors of the Guarantor, and shall rank: (A) at least *pari passu* with all claims of holders of all other subordinated obligations of the Guarantor which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Guarantor in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and all obligations which rank, or are expressed to rank, *pari passu* therewith ("**Pari Passu Securities of the Guarantor**"); and (B) in priority to the claims of holders of (i) all obligations of the Guarantor which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Guarantor in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith and (ii) all classes of share capital of the Guarantor (together, the "**Junior Securities of the Guarantor**").

Nothing in this Condition 4.3 or in Condition 4.6 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

4.4 Guarantor Recovered Amount

In the event that any payment is made to the Trustee (other than payments made to the Trustee acting on its own account under the Trust Deed) and/or the Noteholders in respect of the claims under the terms of the Notes and the Trust Deed (including the Guarantee) by the liquidator or administrator (as

applicable) of the Guarantor (any such amount paid, the "**Guarantor Recovered Amount**"), any Guarantor Recovered Amount shall reduce the amounts payable by the Issuer under the terms of the Notes and the Trust Deed in the following manner:

(a) the Guarantor Interest Portion of a Guarantor Recovered Amount shall reduce any obligation of the Issuer to make payment in respect of accrued interest and Arrears of Interest under the Notes and the Trust Deed by an amount equal to the Guarantor Interest Portion with effect from (and including) the Guaranteed Recovered Amount Payment Date; and

(b) the Guarantor Non-Interest Portion of a Guarantor Recovered Amount shall reduce any obligation of the Issuer to make payment in respect of principal of the Notes under the Notes and the Trust Deed by an amount equal to the Guarantor Non-Interest Portion with effect from (and including) the Guarantor Recovered Amount Payment Date, and accordingly interest shall only accrue on and be payable in respect of such reduced principal amount of the Notes from (and including) the Guarantor Recovered Amount Payment Date.

4.5 Obligations of the Guarantor upon an Issuer Winding-Up

In the event of an Issuer Winding-Up, the Guarantor undertakes under the Guarantee to pay the Guaranteed Amounts on the basis that such amounts are and will be due for payment under the terms of the Notes and the Trust Deed as if the Issuer Winding-Up had not occurred and provided that no amount shall be deemed due and payable by the Issuer for the purpose of the Guarantee if such amount only became due and payable by the Issuer under the terms of the Notes as a result of the occurrence of such Issuer Winding-Up. In the event that any Issuer Recovered Amount is paid to the Noteholders (or the Trustee on their behalf) in the Issuer Winding-Up, such Issuer Recovered Amount will reduce the amounts payable by the Guarantor in respect of the Notes and the Trust Deed (including the Guarantee) to the extent and in the manner provided in Condition 3.3.

In addition, the Guarantor shall have the rights and benefits of all the provisions applicable to the Issuer in the Conditions and the Trust Deed including, without limitation, the Issuer's ability to redeem, vary, substitute or purchase the Notes in the circumstances set out in Conditions 8.5, 8.6 and 8.7 and, accordingly, in such circumstances all references in these Conditions and the Trust Deed to the Issuer shall, to the extent necessary to confer such rights and/or benefits, be construed as references to the Guarantor.

4.6 Guarantor Solvency Condition

Other than in the circumstances set out in Condition 4.3 and without prejudice to Condition 11.3(b), all payments under or arising from the Guarantee shall be conditional upon the Guarantor being solvent at the time for payment by the Guarantor, and no amount shall be payable under or arising from the Guarantee unless and until such time as the Guarantor could make such payment and still be solvent immediately thereafter (the "**Guarantor Solvency Condition**").

For the purposes of this Condition 4.6, the Guarantor will be solvent if (i) it is able to pay its debts owed to Senior Creditors of the Guarantor and Pari Passu Creditors of the Guarantor as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors of the Guarantor). A certificate as to solvency of the Guarantor signed by two Directors of the Guarantor or, if there is a winding-up or administration of the Guarantor, by two authorised signatories of the liquidator or, as the case may be, the administrator of the Guarantor shall, in the absence of manifest error be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

4.7 Set-off, etc.

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

5 Interest

5.1 Interest Rate

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

Subject to Conditions 3.4, 4.6 and 6, interest shall be payable on the Notes annually in arrear on each Interest Payment Date, in each case as provided in this Condition 5.

5.2 Interest Accrual

Interest shall cease to accrue on each Note on the due date for redemption (which due date shall, in the case of deferral of a redemption date in accordance with Condition 8.2 or 8.3, be the latest date to which redemption of the Notes is so deferred) unless payment is improperly withheld or refused, in which event interest shall continue to accrue (in each case, both before and after judgment) as provided in the Trust Deed.

5.3 Initial Interest Rate and Reset Rate

For each Interest Period ending before the First Call Date, the Notes bear interest at the rate of 5.125 per cent. per annum (the "**Initial Interest Rate**"). Accordingly, the amount of interest which will, subject to Conditions 3.4, 4.6 and 6, be payable on each Interest Payment Date up to (and including) the First Call Date will be £51.25 per Calculation Amount.

For each Interest Period from (and including) the First Call Date to (but excluding) the Maturity Date, the Notes will bear interest at the applicable Reset Rate (being the Reset Rate most recently determined in accordance with these Conditions before commencement of such Interest Period).

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

Interest shall be calculated per £1,000 in principal amount of the Notes (the "**Calculation Amount**") by applying the relevant rate of interest referred to in this Condition 5.3 to such Calculation Amount, multiplying the resulting figure by the day count fraction described in the immediately preceding paragraph and rounding the resultant figure to two decimal places (with 0.005 being rounded up).

5.4 Determination of Reset Rate

The Calculation Agent will, as soon as practicable after 11:00 a.m. (London time) on the date falling one Business Day prior to each Reset Date, determine the applicable Reset Rate and shall promptly notify the Issuer, the Guarantor, the Principal Paying Agent and the Trustee thereof.

5.5 Publication of Reset Rate

Once the Issuer, the Guarantor, the Principal Paying Agent and the Trustee have been notified of an applicable Reset Rate by the Calculation Agent in accordance with Condition 5.4, the Issuer shall cause notice of such Reset Rate, and the amount of interest which will, subject to Conditions 3.4, 4.6 and 6, be payable per Calculation Amount on each Interest Payment Date in respect of which such Reset Rate applies, to be given to the Noteholders in accordance with Condition 13 as soon as reasonably practicable after the determination of such Reset Rate in accordance with Condition 5.4, and in any event no later than the fourth Business Day thereafter. Such determination of the applicable Reset Rate shall (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Principal Paying Agent, the Trustee and the Noteholders.

5.6 Determinations or calculation by Trustee

The Trustee (or an agent appointed by it) shall at the expense of the Issuer, if the Calculation Agent does not at any relevant time and for any reason determine any applicable Reset Rate in accordance with this Condition 5, determine that Reset Rate to be such rate as, in its absolute discretion (having such regard as it deems fit to the procedures prescribed in this Condition 5), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Calculation Agent.

5.7 Calculation Agent

Unless the Issuer has given notice that it intends to redeem the Notes on the First Call Date pursuant to Condition 8.5, with effect from the date falling no later than five days prior to the First Call Date and for so long as any of the Notes remains outstanding, the Issuer and the Guarantor will appoint and maintain a Calculation Agent. The Issuer and the Guarantor may, with the prior written approval of the Trustee, from time to time replace the Calculation Agent with another leading financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent, the Issuer and the Guarantor shall forthwith appoint another leading financial institution in London approved in writing by the Trustee to act as such in its place.

5.8 Determinations of Calculation Agent or Trustee binding

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

6 Deferral of Interest

6.1 Issuer Optional Deferral of Interest

The Issuer may elect in respect of any Optional Interest Payment Date, by notice to the Noteholders, the Trustee, the Principal Paying Agent and the Calculation Agent as provided in Condition 6.9, to

defer payment of all (but not some only) of the interest accrued in respect of the Notes to that date and the Issuer shall not have any obligation to make such payment on that Optional Interest Payment Date.

6.2 Issuer Mandatory Deferral of Interest

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Mandatory Interest Deferral Date. The Issuer shall notify the Noteholders, the Trustee, the Principal Paying Agent and the Calculation Agent of any Mandatory Interest Deferral Date as provided in Condition 6.9 (provided that failure to make such notification shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date).

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

6.3 Guarantor Optional Deferral of Guaranteed Amounts in respect of interest

If a payment of any Guaranteed Amounts in respect of interest would (but for this Condition 6.3) become due and payable under the Guarantee on a date which is a Guarantor Optional Interest Payment Date, the Guarantor may elect, by notice to the Noteholders, the Trustee, the Principal Paying Agent and the Calculation Agent as provided in Condition 6.9 below, to defer payment of all (but not some only) of such Guaranteed Amounts and the Guarantor shall not have any obligation to make payment of the same on that date.

6.4 Guarantor Mandatory Deferral of Guaranteed Amounts in respect of interest

Any Guaranteed Amounts in respect of interest which would otherwise become due and payable under the Guarantee on a date which is a Guarantor Mandatory Interest Deferral Date will be mandatorily deferred. The Guarantor shall notify the Noteholders, the Trustee, the Principal Paying Agent and the Calculation Agent of any such deferral as provided in Condition 6.9 (provided that failure to make such notification shall not oblige the Guarantor to make payment of such Guaranteed Amounts, or cause the same to become due and payable, on such date).

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

6.5 No default

Notwithstanding any other provision in these Conditions or in the Trust Deed, neither:

(a) the deferral by the Issuer of any payment of interest (i) on an Optional Interest Payment Date in accordance with Condition 6.1, (ii) on a Mandatory Interest Deferral Date in accordance with

Condition 6.2 or (iii) as a result of the non-satisfaction of the Issuer Solvency Condition in accordance with Condition 3.4; nor

(b) the deferral by the Guarantor of any payment of any Guaranteed Amounts in respect of interest (i) on a Guarantor Optional Interest Payment Date in accordance with Condition 6.3, (ii) on a Guarantor Mandatory Interest Deferral Date in accordance with Condition 6.4 or (iii) as a result of the non-satisfaction of the Guarantor Solvency Condition in accordance with Condition 4.6,

will constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

6.6 Arrears of Interest

Any interest on the Notes not paid on an Interest Payment Date as a result of:

(a) the exercise by the Issuer of its discretion to defer such payment of interest pursuant to Condition 6.1, the obligation of the Issuer to defer such payment of interest pursuant to Condition 6.2 or the operation of the Issuer Solvency Condition described in Condition 3.4; and

(b) the exercise by the Guarantor of its discretion to defer payment of Guaranteed Amounts in respect of such interest pursuant to Condition 6.3, the obligation of the Guarantor to defer payment of Guaranteed Amounts in respect of such interest pursuant to Condition 6.4 or the operation of the Guarantor Solvency Condition described in Condition 4.6,

shall (without double-counting), together with any other interest not paid on any earlier Interest Payment Dates, to the extent and so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest shall not themselves bear interest.

6.7 Payment of Arrears of Interest by the Issuer

Any Arrears of Interest may (subject to Condition 3.4 and to satisfaction of the Regulatory Clearance Condition) be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 13 and in any event will become due and payable by the Issuer (subject, in the case of (a) and (c) below, to Condition 3.4 and to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

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

(b) the date on which an Issuer Winding-Up occurs; or

(c) the date fixed for any redemption or purchase of Notes pursuant to Condition 8 (subject to any deferral of such redemption date pursuant to Condition 8.2) or Condition 11.

6.8 Payment of Arrears of Interest by the Guarantor

Any Arrears of Interest may (subject to Condition 4.6 and to satisfaction of the Regulatory Clearance Condition) be paid by the Guarantor in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Guarantor to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 13 and in any event will become due and payable by the Guarantor (subject, in the case of (a) and (c) below, to Condition 4.6 and to

satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

(a) the next Interest Payment Date which is not a Guarantor Mandatory Interest Deferral Date on which payment of Guaranteed Amounts in respect of interest is made or is required to be made pursuant to these Conditions (other than a voluntary payment by the Guarantor of any Arrears of Interest); or

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

(c) the date fixed for any redemption or purchase of Notes by or on behalf of the Issuer pursuant to Condition 8 (subject to any deferral by the Guarantor of payments of Guaranteed Amounts in connection with a redemption or purchase of the Notes date pursuant to Condition 8.3) or Condition 11.

6.9 Notice of Deferral

(a) The Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 13 not less than five Business Days prior to an Interest Payment Date:

(i) if that Interest Payment Date is an Optional Interest Payment Date in respect of which the Issuer elects to defer interest as provided in Condition 6.1 above; or

(ii) if that Interest Payment Date is a Mandatory Interest Deferral Date and specifying that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 13 as soon as reasonably practicable following the occurrence of such event; or

(iii) if payment of interest is to be deferred on that Interest Payment Date only as a result of the non-satisfaction of the Issuer Solvency Condition and specifying the same, provided that if the Issuer becomes aware of such non-satisfaction of the Issuer Solvency Condition less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 13 as soon as reasonably practicable following it becoming so aware.

(b) The Guarantor shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in writing in accordance with Condition 13 not less than four Business Days prior to an Interest Payment Date in respect of which Guaranteed Amounts in respect of interest are scheduled to be paid:

(i) if that Interest Payment Date is a Guarantor Optional Interest Payment Date in respect of which the Guarantor elects to defer payment of the relevant Guaranteed Amounts as provided in Condition 6.3 above; or

(ii) if that Interest Payment Date is a Guarantor Mandatory Interest Deferral Date and specifying that relevant Guaranteed Amounts will not be paid because a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of relevant Guaranteed Amounts was made on such Interest Payment Date, provided that if a Guarantor Regulatory Deficiency Interest Deferral Event occurs less than four Business Days prior to such Interest Payment Date, the Guarantor shall give notice

of the deferral in accordance with Condition 13 as soon as reasonably practicable following the occurrence of such event; or

(iii) if payment of interest is to be deferred on that Interest Payment Date only as a result of the non-satisfaction of the Guarantor Solvency Condition and specifying the same, provided that if the Guarantor becomes aware of such non-satisfaction of the Guarantor Solvency Condition less than four Business Days prior to an Interest Payment Date, the Guarantor shall give notice of the interest deferral in accordance with Condition 13 as soon as reasonably practicable following it becoming so aware.

7 Payments

7.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the relevant Noteholder. Payments of principal, and payments of interest and Arrears of Interest due at the time of redemption of the Notes, will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Save as provided in the previous sentence, interest and Arrears of Interest due for payment on the Notes will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the second day before the due date for the relevant payment.

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, in the case of principal, and of interest and Arrears of Interest due at the time of redemption of the Notes, on the second Business Day before the due date for payment and, in the case of any other payment of interest and Arrears of Interest, on the relevant record date.

7.2 Payments subject to applicable laws

Save as provided in Condition 9, payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or the Guarantor or its/their respective Agents agree to be subject and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements.

7.3 No commissions

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

7.4 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 Business Day preceding the due date for payment or, in the case of a payment of principal, or of a payment of interest or Arrears of Interest due at the time of redemption of the Notes, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

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

7.5 Partial payments

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

7.6 Agents

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

(a) a Principal Paying Agent;

(b) an Agent (which may be the Principal Paying Agent) having a specified office in a European city;

(c) a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) a Registrar.

In addition, the Issuer and the Guarantor shall appoint and maintain a Calculation Agent in accordance with the provisions of Condition 5.7. Notice of any termination or appointment and of any changes in specified offices of any of the Agents will be given to the Noteholders promptly by the Issuer or the Guarantor in accordance with Condition 13.

8 Redemption, Substitution, Variation and Purchase

8.1 Redemption at Maturity

Subject to Condition 8.2 and Condition 8.9 and to satisfaction of the Regulatory Clearance Condition, unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 10 October 2045 (the "**Maturity Date**") together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

8.2 Issuer deferral of redemption date

(a) No Notes shall be redeemed on the Maturity Date pursuant to Condition 8.1 or prior to the Maturity Date pursuant to Condition 8.5, 8.6 or 8.7 if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made pursuant to Condition 8 or (ii) redemption would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital, and, in each case, redemption shall instead be deferred in accordance with the provisions of this Condition 8.2.

(b) The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 no later than five Business Days prior to any date set for redemption of the Notes if such redemption is to be deferred in accordance with Condition 8.2(a), provided that if a Regulatory Deficiency Redemption Deferral Event occurs less than five Business Days prior to the date set for redemption, the Issuer shall give notice of such deferral in accordance with Condition 13 as soon as reasonably practicable following the occurrence of such event.

(c) If redemption of the Notes does not occur on the Maturity Date or, as applicable, the date specified in the notice of redemption by the Issuer under Condition 8.5, 8.6 or 8.7 as a result of Condition 8.2(a) above, the Issuer shall (subject, in the case of (i) and (ii) below only, to Condition 3.4 and to satisfaction of the Regulatory Clearance Condition) redeem such Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest (in each case, to the extent that such amounts have not at such time already been paid by or otherwise recovered from the Guarantor), upon the earlier of:

(i) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless on such 10th Business Day a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 8.2(a) and this Condition 8.2(c) will apply *mutatis mutandis* to determine the due date for redemption of the Notes); or

(ii) the date falling 10 Business Days after the PRA has agreed to the repayment or redemption of the Notes; or

(iii) the date on which an Issuer Winding-Up occurs.

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

(d) If Condition 8.2(a) does not apply, but redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 8.5, 8.6 or 8.7 as a result of the Issuer Solvency Condition not being satisfied at such time, the Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 as soon as practicable on or following the scheduled redemption date on which the Issuer Solvency Condition is not satisfied and such redemption of the Notes has been deferred. Subject to satisfaction of the Regulatory Clearance Condition, such Notes shall be redeemed at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest (in each case, to the extent that such amounts have not at such time already been paid by or otherwise recovered from the Guarantor) on the 10th Business Day immediately following the day that (A) the Issuer is solvent for the purposes of Condition 3.4 and (B) the redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 3.4, provided that if on such Business Day specified for redemption a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed, then the Notes shall not be redeemed on such date and Conditions 3.4 and 8.2(c) shall apply *mutatis mutandis* to determine the due date for redemption of the Notes. The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 no later than five Business Days prior to any date set for redemption pursuant to (A) and (B) above.

(e) A certificate signed by two Directors of the Issuer confirming that (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and

sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

8.3 Guarantor deferral of redemption date

(a) The obligations of the Guarantor under the Guarantee to make payment of Guaranteed Amounts in respect of principal, interest or any other amount in relation to the redemption of the Notes will be mandatorily deferred if (i) a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if such payment is made or (ii) making payment of any Guaranteed Amounts in respect of principal, interest or any other amount in relation to the redemption of the Notes would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital, and, in each case, such payment obligation of the Guarantor in relation to redemption of the Notes shall instead be deferred in accordance with the provisions of this Condition 8.3.

(b) The Guarantor shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 no later than five Business Days after the date on which the Guarantor becomes aware of its obligation to make payment of Guaranteed Amounts in respect of principal, interest or any other amount in relation to the redemption of the Notes and if a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if such payment was made.

(c) If the obligations of the Guarantor under the Guarantee to make payment in relation to the redemption of the Notes are mandatorily deferred in accordance with Condition 8.3(a), such payment will (to the extent that the relevant amounts have not at such time already been paid by or otherwise recovered from the Issuer) become due and payable by the Guarantor (subject, in the case of (i) and (ii) below only, to Condition 4.6 and to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of:

(i) the date falling 10 Business Days after the date the Guarantor Regulatory Deficiency Redemption Deferral Event has ceased (unless on such 10th Business Day a further Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or payment under the Guarantee in relation to the redemption of Notes on such date would result in a Guarantor Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 8.3(a) and this Condition 8.3(c) will apply *mutatis mutandis* to determine the due date for payment of such amounts); or

(ii) the date falling 10 Business Days after the PRA has agreed to the payment by the Guarantor of Guaranteed Amounts in connection with redemption of the Notes by the Issuer; or

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

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

(d) If Condition 8.3(a) does not apply, but the obligations of the Guarantor under the Guarantee to make payment of any Guaranteed Amounts in relation to the redemption of the Notes are mandatorily deferred as a result of the Guarantor Solvency Condition not being satisfied at such time, the Guarantor shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 as soon as practicable on or following the scheduled redemption

date on which the Guarantor Solvency Condition is not satisfied and such redemption of the Notes has been deferred. Subject to satisfaction of the Regulatory Clearance Condition, such obligations shall be payable (to the extent that the relevant amounts have not at such time already been paid by or otherwise recovered from the Issuer) on the 10th Business Day immediately following the day that (A) the Guarantor is solvent for the purposes of Condition 4.6 and (B) the payment of such Guaranteed Amounts would not result in the Guarantor ceasing to be solvent for the purposes of Condition 4.6, provided that if on such Business Day specified for redemption a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if such obligations were to be paid, then such obligations shall not be paid on such date and Conditions 4.6 and 8.3(c) shall apply *mutatis mutandis* to determine the due date for payment of such Guaranteed Amounts. The Guarantor shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 no later than five Business Days prior to any date set for payment pursuant to (A) and (B) above.

(e) A certificate signed by two Directors of the Guarantor confirming that (a) a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if payment were to be made under the Guarantee in relation to the redemption of Notes or (b) a Guarantor Regulatory Deficiency Redemption Deferral Event has ceased to occur and payment under the Guarantee in relation to the redemption of Notes would not result in a Guarantor Regulatory Deficiency Redemption Deferral Event occurring shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

8.4 Deferral of redemption not a default

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes (including deferral of payment of any Guaranteed Amounts under the Guarantee in respect of the redemption of the Notes) in accordance with Condition 3.4, 4.6, 8.2 or 8.3 will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

8.5 Redemption at the option of the Issuer

Subject to Conditions 8.2(a) and 8.9 the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption); and

(b) notice to the Registrar, the Principal Paying Agent and the Trustee not less than three days before the giving of the notice referred to in (a),

redeem all (but not some only) of the Notes, on the First Call Date or on any following Interest Payment Date at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption.

8.6 Redemption, variation or substitution for taxation reasons

Subject to Conditions 8.2(a) and 8.9, if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 7 October 2014, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 9; or (ii) the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; or (iii) the payment of interest (or any Guaranteed Amounts in respect of interest) would no longer be deductible for United Kingdom tax purposes; or (iv) in respect of the payment of interest (or any Guaranteed Amounts in respect of interest), the Issuer or the Guarantor, as the case may be, would not to any material extent be entitled to have any attributable loss or non-trading deficit set against the profits (assuming there are any) of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

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

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable) either:

(A) redeem all the Notes, but not some only, at any time at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (i) with respect to (a)(i) and (a)(ii), the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts; (ii) with respect to (a)(iii), the payment of interest (or Guaranteed Amounts in respect of interest) would no longer be deductible for United Kingdom tax purposes; or (iii) with respect to (a)(iv), the Issuer or the Guarantor, as the case may be, would not to any material extent be entitled to have the loss or non-trading deficit set against the profits as provided in (a)(iv), in each case were a payment in respect of the Notes then due; or

(B) 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 Tier 2 Securities, and the Trustee shall (subject as provided in Condition 8.8 and to the receipt by it of the certificates of the Directors referred to in Condition 8.9 below and in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation.

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

(a) Subject to Conditions 8.2(a) and 8.9, if at any time a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable law, regulation, ratings methodology or other official publication, the same will occur within a period of six months, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13, the Trustee and the Principal Paying Agent, which notice must be given during the Notice Period and shall be irrevocable, either:

(i) at any time (in the case of a Capital Disqualification Event), or at any time on or after the fifth anniversary of the Issue Date (in the case of a Ratings Methodology Event), redeem all (but not some only) of the Notes at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or

(ii) at any time substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they become or remain (A) in the case of a substitution or variation in connection with a Capital Disqualification Event, Qualifying Tier 2 Securities, or (B) in the case of a substitution or variation in connection with a Ratings Methodology Event, Rating Agency Compliant Securities, and in either case the Trustee shall (subject as provided in Condition 8.8 and to the receipt by it of the certificates of the Directors referred to in Condition 8.9 below, in the definition of 'Qualifying Tier 2 Securities' and, in the case of a substitution or variation in connection with a Ratings Methodology Event, in the definition of 'Rating Agency Compliant Securities') agree to such substitution or variation.

(b) For the purposes of this Condition 8.7, "**Notice Period**" means the period commencing on the date on which the relevant Capital Disqualification Event or relevant Ratings Methodology Event (as the case may be) first occurs (or, as applicable, the date on which the Issuer satisfies the Trustee that the same will occur within a period of six months) and ending on the thirtieth calendar day following satisfaction of the Regulatory Clearance Condition in respect of the redemption, substitution or variation which is the subject of the notice to which the Notice Period relates.

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

8.8 Trustee role on redemption, variation or substitution; Trustee not obliged to monitor

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 substitution or variation of the Notes for or into Qualifying Tier 2 Securities pursuant to Condition 8.6 or Qualifying Tier 2 Securities or Rating Agency Compliant Securities (as the case may be) pursuant to Condition 8.7 above provided that the Trustee shall not be obliged to co-operate in or agree to any such substitution or variation of the terms if the securities into which the Notes are to be substituted or are to be varied or the co-operation in such substitution or variation imposes, in the Trustee's opinion, more onerous obligations upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so co-operate or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

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

8.9 Preconditions to redemption, variation, substitution and purchases

(a) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 8.6 or 8.7, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that, as the case may be:

(i) the requirement referred to in paragraph 8.6(a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it; or

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

(iii) in the case of notice of a redemption before the fifth anniversary of the Issue Date, it would have been reasonable for the Issuer to conclude, judged at the Issue Date, that the circumstance entitling the Issuer to exercise the right of redemption was unlikely to occur,

and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

(b) In addition, prior to the publication of any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer or, as the case may be, the Guarantor will be required to have complied with the Regulatory Clearance Condition and be in continued compliance with Regulatory Capital Requirements. A certificate from any two Directors to the Trustee confirming such compliance shall be conclusive evidence of such compliance for the purposes of these Conditions (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

(c) Neither the Issuer nor the Guarantor shall redeem (or, as the case may be, pay any Guaranteed Amounts in respect of any redemption of) any Notes or purchase any Notes unless at the time of such redemption, payment or purchase it is, and will immediately thereafter remain (i) solvent (as such term is described in Condition 3.4 with respect to the Issuer and in Condition 4.6 with respect to the Guarantor) and (ii) in compliance with all Regulatory Capital Requirements applicable to it. A certificate from any two Directors to the Trustee confirming such compliance shall be conclusive evidence of such compliance (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

(d) If a redemption of the Notes in accordance with Condition 8.6 or Condition 8.7 is to occur within five years of the Issue Date of the Notes, any such redemption will only be made (i) in compliance with the Relevant Rules and (ii) on the condition that the Notes are exchanged for, or redeemed out of the proceeds of a new issue of, capital of the same or higher quality, provided that this sub-Condition (d)(ii) shall not apply if, on or after Solvency II Implementation, Solvency II does not require such redemption to be so funded (on the basis that the Notes are intended to qualify as Tier 2 Capital without the operation of any grandfathering provisions). A certificate from any two Directors to the Trustee confirming such compliance shall be conclusive evidence of such compliance and the Trustee may rely absolutely on such certification without liability to any person.

8.10 Compliance with stock exchange rules

In connection with any substitution or variation of the Notes in accordance with Condition 8.6 or Condition 8.7, the Issuer and the Guarantor shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading, and (for so long as the Notes are listed on the Official List of the FCA in its capacity as competent authority under the FSMA and admitted to trading on the London Stock Exchange's regulated market) shall publish a supplement in connection therewith if the Issuer and/or the Guarantor is required to do so in order to comply with Section 87G of the FSMA.

8.11 Purchases

Subject to Condition 8.9, the Issuer, the Guarantor or any of the Issuer's other Subsidiaries may at any time purchase Notes in any manner and at any price. All Notes purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Issuer may be held, reissued, resold or, at the option of the Issuer and the relevant purchaser, surrendered for cancellation to the Principal Paying Agent.

8.12 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 8.11, will forthwith be cancelled. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

8.13 Notices Final

Subject and without prejudice to Conditions 3.4, 8.2 and 8.9, any notice of redemption as is referred to in Conditions 8.5, 8.6 or 8.7 above shall be irrevocable and upon expiry of 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.

9 Taxation

9.1 Payment without withholding

All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction unless the withholding or deduction of the Taxes is required by law. In any such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been received in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) the holder of which is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(b) surrendered for payment (where surrender is required) in the United Kingdom; or

(c) in circumstances where such withholding or deduction would not be required if the holder or any person acting on his behalf had obtained and/or presented any form or certificate or had made a declaration of non-residence or similar claim for exemption to the relevant tax authority upon the making of which the holder would have been able to avoid such withholding or deduction; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) surrendered for payment (where surrender is required) by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Note to another Paying Agent in a Member State of the European Union; or

(f) surrendered for payment (where surrender is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on surrendering the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day.

9.2 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 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

10 Prescription

Claims 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 Events of Default

11.1 Rights to institute and/or prove in a winding-up of the Issuer

The right to institute winding-up proceedings in respect of the Issuer is limited to circumstances where a payment of principal, interest or other amount in respect of the Notes by the Issuer under the Notes or the Trust Deed has become due and is not duly paid. For the avoidance of doubt (without prejudice to Condition 11.3(a)), no amount shall be due from the Issuer in circumstances where payment of such amount could not be made in compliance with the Issuer Solvency Condition or is deferred by the Issuer in accordance with Conditions 6.1, 6.2 or 8.2.

If:

(a) default is made by the Issuer for a period of 14 days or more in the payment of any interest or principal due in respect of the Notes or any of them; or

(b) an Issuer Winding-Up occurs,

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 prefunded to its satisfaction):

(i) in the case of (a) above, institute proceedings for the winding-up of the Issuer in England and Wales (but not elsewhere) and prove in the winding-up; and/or

(ii) in the case of (b) above, prove in the winding-up or administration of the Issuer (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Issuer (whether in England and Wales or elsewhere),

but (in either case) may take no further or other action to enforce, prove or claim for any payment by the Issuer 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 11.1, 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.

11.2 Rights to institute and/or prove in a winding-up of the Guarantor

The right to institute winding-up proceedings in respect of the Guarantor is limited to circumstances where a payment of Guaranteed Amounts in respect of principal, interest or other amount in respect of the Notes by the Guarantor under the Guarantee has become due and is not duly paid. For the avoidance of doubt (without prejudice to Condition 11.3(b)), no amount shall be due from the Guarantor in circumstances where payment of such amount could not be made in compliance with the Guarantor Solvency Condition or is deferred by the Guarantor in accordance with Conditions 6.3, 6.4 or 8.3.

If:

(a) default is made by the Guarantor for a period of 14 days or more in the payment of any Guaranteed Amounts in respect of interest or principal due in respect of the Notes or any of them; or

(b) a Guarantor Winding-Up occurs,

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 prefunded to its satisfaction):

(i) in the case of (a) above, institute proceedings for the winding-up of the Guarantor in England and Wales (but not elsewhere) and prove in the winding-up; and/or

(ii) in the case of (b) above, prove in the winding-up or administration of the Guarantor (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Guarantor (whether in England and Wales or elsewhere),

but (in either case) may take no further or other action to enforce, prove or claim for any payment by the Guarantor in respect of the Notes or the Trust Deed (including the Guarantee). No payment in respect of the Notes or the Trust Deed (including under the Guarantee) may be made by the Guarantor pursuant to this Condition 11.2, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Guarantor or after an administrator of the Guarantor has given notice that it intends to declare and distribute a dividend, unless the Guarantor has given prior written notice (with a copy to the Trustee) to, and received no objection from, the PRA which the Guarantor shall confirm in writing to the Trustee.

11.3 Amount payable on a winding-up or administration

(a) **Issuer Winding-Up:** Upon the occurrence of an Issuer Winding-Up (including, for the avoidance of doubt, a winding-up initiated pursuant to Condition 11.1(i)), 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 prefunded to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at the amount equal to their principal amount together with any Arrears of

Interest and any other accrued and unpaid interest. Claims against the Issuer in respect of such amounts will be subordinated in accordance with Condition 3.2. However, as regards the Guarantor's obligation to pay under the Guarantee upon the occurrence of an Issuer Winding-Up, Condition 4.5 shall apply.

(b) **Guarantor Winding-Up:** Upon the occurrence of a Guarantor Winding-Up (including, for the avoidance of doubt, a winding-up initiated pursuant to Condition 11.2(i)), there shall be due and payable by the Guarantor as debtor in respect of the Notes, the Trust Deed and the Guarantee an amount equal to the principal amount of the Notes together with any Arrears of Interest and any other accrued and unpaid interest and, accordingly, upon the occurrence of a Guarantor Winding-Up 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 prefunded to its satisfaction), prove in the winding-up or administration (as the case may be) for such amount, but the Notes shall not thereby become immediately due and repayable by the Issuer. Claims against the Guarantor in respect of such amounts will be subordinated in accordance with Condition 4.3.

In the event that any Guarantor Recovered Amount is paid to the Noteholders (or the Trustee on their behalf) in the Guarantor Winding-Up, such Guarantor Recovered Amount will to the extent of amounts recovered be treated as satisfying the amounts payable by the Issuer in respect of the Notes and the Trust Deed to the extent and in the manner provided in Condition 4.4.

(c) **Adjustment of claims following payment or recovery:** Any claim against the Issuer pursuant to Condition 11.3(a) for amounts in respect of principal, interest and/or Arrears of Interest shall be treated as satisfied if, and to the extent that, any amounts in respect of the same are first paid by or recovered from the Guarantor (including, without limitation, any Guarantor Recovered Amount following a Guarantor Winding-Up). Any claim against the Guarantor pursuant to Condition 11.3(b) for amounts in respect of principal, interest and/or Arrears of Interest shall be reduced if, and to the extent that, any amounts in respect of the same are first paid by or recovered from the Issuer (including, without limitation, any Issuer Recovered Amount following an Issuer Winding-Up).

11.4 Enforcement

Without prejudice to Conditions 11.1, 11.2 or 11.3, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor (as the case may be) under the Trust Deed or the Notes (other than any payment obligation of the Issuer or the Guarantor under or arising from the Notes or the Trust Deed (including the Guarantee), including any 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) but in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, 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 11.4 shall, however, prevent the Trustee:

(a) subject to Condition 11.1, instituting proceedings for the winding-up of the Issuer in England and Wales and/or proving in any winding-up or administration of the Issuer (whether in England and Wales or elsewhere) and/or claiming in any liquidation of the Issuer in respect of any payment obligation of the Issuer (whether in England and Wales or elsewhere); and/or

(b) subject to Condition 11.2, instituting proceedings for the winding-up of the Guarantor in England and Wales and/or proving in any winding-up or administration of the Guarantor

(whether in England and Wales or elsewhere) and/or claiming in any liquidation of the Guarantor in respect of any payment obligation of the Guarantor (whether in England and Wales or elsewhere),

in each case where such payment obligation arises from the Notes or the Trust Deed (including the Guarantee) (including, without limitation, payment of any principal, interest or Arrears of Interest in respect of the Notes or any damages awarded for breach of any obligations under the Notes or the Trust Deed (including the Guarantee)).

11.5 Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 11.1, 11.2, 11.3 or 11.4 above against the Issuer or the Guarantor to enforce the terms of the Trust Deed, the Notes or any other action under or pursuant to the Trust Deed unless (i) 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 (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

11.6 Right of Noteholders

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

11.7 Extent of Noteholders' remedy

No remedy against the Issuer or the Guarantor, 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 or the Guarantor 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 upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced 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 maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

14 Substitution of Issuer or Guarantor

Subject to the Issuer giving at least one month's notice to, and receiving no objection from, the PRA (or such shorter period of notice as the PRA may accept and so long as there is a requirement to give such notice), the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders:

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

(b) subject to the Notes remaining unconditionally and irrevocably guaranteed on a subordinated basis, in accordance with Condition 4, by the Guarantor, to the substitution of a Subsidiary or parent company of the Issuer or the Guarantor in place of the Issuer as principal debtor under the Trust Deed and the Notes; or

(c) to the substitution of (A) a successor in business to the Guarantor or (B) a Subsidiary of the Guarantor, in each case in place of the Guarantor,

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

(A) a trust deed or some other form of undertaking, supported by one or more legal opinions, is executed by the Substitute Obligor in a 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 has been named in the Trust Deed and the Notes, as the principal debtor in place of the Issuer or (as the case may be) as the guarantor in place of the Guarantor (or of any previous Substitute Obligor, as the case may be);

(B) the Substitute Obligor certifies to the Trustee that (i) it has obtained all necessary governmental and regulatory approvals and consents necessary for its assumptions of the duties and liabilities as Substitute Obligor under the Trust Deed and the Notes in place of the Issuer or the Guarantor (as applicable) or, as the case may be, any previous Substitute Obligor and (ii) such approvals and consents are at the time of substitution in full force and effect (it being declared that the Trustee may rely absolutely on such certification without liability to any person);

(C) two directors (or other officers acceptable to the Trustee) of the Substitute Obligor certify that the Substitute Obligor is solvent at the time at which the substitution is proposed to be in effect, and immediately thereafter (it being declared that the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer or (as the case may be) the Guarantor or (as the case may be) any previous Substitute Obligor);

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

(E) 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 of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer or (as the case may be) the Guarantor (or any previous Substitute Obligor) is subject generally (the "**Original 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 9 and in Condition 8.6 to the Original Territory of references to the Substituted Territory whereupon the Trust Deed and the Notes will be read accordingly;

(F) the Issuer, the Guarantor and the Substitute Obligor comply with such other requirements as the Trustee may direct in the interests of the Noteholders;

(G) in the case of a substitution of the Guarantor pursuant to Condition 14(c)(B) only, if the Notes are rated (where such rating was assigned at the request of the Issuer) by one or more credit rating agencies of international standing immediately prior to such substitution, the Notes shall continue to be rated by each such rating agency immediately following such substitution, and 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

(H) without prejudice to the rights of reliance of the Trustee under paragraphs (B) and (C) above, the Trustee shall be satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution proposed pursuant to this Condition 14.

15 Meetings of Noteholders, Modification, Waiver and Authorisation

15.1 Meetings of Noteholders

Except as provided herein, any modification to, or waiver in respect of, these Conditions or any provisions of the Trust Deed will be subject to satisfaction of the Regulatory Clearance Condition.

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee or Noteholders holding not less than 10 per cent., in principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent., 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 includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of 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 a written resolution executed by or on behalf of the holders of 90 per cent., in principal amount of the Notes outstanding who would have been entitled to vote upon it if it had been proposed at a meeting at which they were present shall take effect as if it were an Extraordinary Resolution.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or variation of the Notes pursuant to Condition 8.6 or 8.7 or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or the Guarantor pursuant to Condition 14.

15.2 Modification, waiver, authorisation and determination

The Trustee may agree, without the consent of the Noteholders, to any modification (except as mentioned in the Trust Deed) 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 (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification 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 or the Guarantor is incorporated.

15.3 Trustee to have regard to interests of Noteholders as a class

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

15.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation, determination or substitution 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.

16 Transfer of Business of the Guarantor

The Guarantor may transfer the whole or a substantial part of its business (including its obligations under the Guarantee) without any prior approval from the Trustee or the Noteholders:

(a) to another body in accordance with Part VII of the FSMA (a "**Successor**"). If the Guarantor transfers all or a substantial part of its business to a Successor in accordance herewith, the Guarantor shall procure that there be included in the assets and liabilities to be transferred to such Successor all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and references in these Conditions and the Trust Deed to the Guarantor shall be construed accordingly; or

(b) to a single legal entity where such transfer is pursuant to the exercise by the PRA or the Financial Services Compensation Scheme of its powers in connection with any applicable law, rule or regulation. If the Guarantor is required to make such a transfer, the Guarantor shall procure that there be included in the transfer all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and references in these Conditions and the Trust Deed to the Guarantor shall be construed accordingly.

In this Condition 16, "**a substantial part**" means any part which, as at the most recent valuation date by reference to the latest published financial statements of the Guarantor and as certified in writing by two Directors of the Guarantor to the Trustee, represents 50 per cent., or more of liabilities (where the amount of the liabilities of the Guarantor is deemed to mean the same as the technical provisions of the Guarantor, net of reinsurance) relating to policies underwritten by the Guarantor.

17 Indemnification of the Trustee and its contracting with the Issuer and the Guarantor

17.1 Indemnification of the Trustee

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

17.2 Trustee contracting with the Issuer and the Guarantor

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

17.3 Regulatory Clearance Condition

Wherever in these Conditions and/or the Trust Deed there is a requirement for the Regulatory Clearance Condition to be satisfied, the Trustee shall be entitled to assume without enquiry that such condition has been satisfied unless notified in writing to the contrary by the Issuer or the Guarantor.

18 Further Issues

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

19 Governing Law

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

20 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.

21 Defined Terms

In these Conditions:

"**5 Year Gilt Rate"** means (i) the arithmetic average of the Reference Government Bond Dealer Quotations after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (ii) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations. This arithmetic average shall be obtained by the Calculation Agent

on the date falling one (1) Business Day prior to each Reset Date and shall be converted from a semi-annual to an annual basis in a commercially reasonable manner;

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

"**Agents**" means the Registrar, the Principal Paying Agent, the Calculation Agent and the other Paying Agents appointed from time to time under the Agency Agreement;

"**Arrears of Interest**" has the meaning given in Condition 6.6;

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

"**Business Day**" means (i) except for the purposes of Conditions 2, 7.4 and 9.1(f), 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 Agent with whom a Certificate is deposited in connection with a transfer is located and (iii) for the purpose of Conditions 7.4 and 9.1(f), 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 Agent**" means a leading financial institution in London appointed by the Issuer and the Guarantor in accordance with Condition 5.7 for the purposes of determining the Reset Rate;

a "**Capital Disqualification Event**" is deemed to have occurred if, as a result of any replacement of or change to (or change to the interpretation by any court or authority entitled to do so of) Solvency II or the Relevant Rules or following the implementation of Solvency II:

(a) the Notes are no longer capable of counting; or

(b) in the circumstances where such capability derives only from transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, less than 100 per cent., of the principal amount of either (a) the Notes outstanding at such time or (b) any indebtedness outstanding at such time and classified in the same category as the Notes by the Insurance Group Supervisor for the purposes of any transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, is capable of counting,

as:

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

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

except where in the case of either (x) or (y) above such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than the limitation deriving from transitional or grandfathering provisions referred to in (b) above);

"**Certificate**" has the meaning given in Condition 1.1;

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

"**Compulsory Interest Payment Date**" means any Interest Payment Date (i) in respect of which during the period of six months ending on such Interest Payment Date a Compulsory Interest Payment Event has occurred, (ii) on which the Issuer Solvency Condition is satisfied and (iii) which is not a Mandatory Interest Deferral Date;

"**Compulsory Interest Payment Event**" means:

(a) any declaration, payment or making of a dividend or distribution by the Issuer to its ordinary shareholders; or

(b) any declaration, payment or making of a dividend, distribution or coupon on any other Junior Securities of the Issuer, except where such dividend, distribution or coupon was required to be declared, paid or made under, or in accordance with, the terms of such Junior Securities of the Issuer; or

(c) any repurchase by the Issuer of its ordinary shares for cash, provided such repurchase is not made in the ordinary course of business of the Issuer in connection with any share option scheme or share ownership scheme for management or employees of the Issuer or management or employees of affiliates of the Issuer; or

(d) any redemption or repurchase by the Issuer, the Guarantor or any other Subsidiary of the Issuer of any other Junior Securities of the Issuer for cash, except a redemption required to be effected under, or in accordance with, the terms of such Junior Securities of the Issuer,

provided that if at any time, and for so long as, the existence of any of the Compulsory Interest Payment Events at paragraphs (b) and/or (d) above would result in the Notes or any part thereof ceasing to be eligible to qualify as Lower Tier 2 Capital (or, following Solvency II Implementation, Tier 2 Capital) under Solvency II or the Relevant Rules, each of those paragraphs which would cause such result shall have no effect and the circumstances described therein shall not constitute a Compulsory Interest Payment Event;

"**Directors**" means the directors of the Issuer or, as the case may be, of the Guarantor;

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

"**Financial Conduct Authority**" or "**FCA**" means the UK Financial Conduct Authority or its successor;

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

"**First Call Date**" means 10 October 2025;

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

"**Guarantee**" has the meaning given in Condition 4.1;

"**Guaranteed Amounts**" has the meaning given in Condition 4.1;

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

"**Guarantor Interest Portion**" means, in respect of a Guarantor Recovered Amount, an amount equal to such Guarantor Recovered Amount multiplied by a fraction the numerator of which is the Total Guarantor Interest Amount and the denominator of which is the aggregate of the Total Guarantor Interest Amount and the principal amount of the Notes outstanding as at the date of the Guarantor Winding-up;

"**Guarantor Mandatory Interest Deferral Date**" means any date (i) in respect of which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of any Guaranteed Amounts in respect of interest was made on such date or (ii) where payment of any Guaranteed Amounts in respect of interest on that date would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital;

"**Guarantor Non-Interest Portion**" means the Guarantor Recovered Amount less the Guarantor Interest Portion;

"**Guarantor Optional Interest Payment Date**" means any date which is not a Guarantor Mandatory Interest Deferral Date;

"**Guarantor Recovered Amount**" has the meaning given in Condition 4.4;

"**Guarantor Recovered Amount Payment Date**" means in respect of any Guarantor Recovered Amount, the date on which such Guarantor Recovered Amount is paid by the liquidator or administrator (as applicable) of the Guarantor to the Noteholders (or the Trustee on their behalf);

"**Guarantor Regulatory Deficiency Interest Deferral Event**" means any event which (including, without limitation, any event which causes the Solvency Capital Requirement or Minimum Capital Requirement applicable to the Guarantor, the Insurance Group or any member of the Insurance Group to be breached and such breach is an event which) under Solvency II and/or under the Relevant Rules would require the Guarantor (in its capacity as the Guarantor or if it were treated as the issuer of the Notes) to defer payment of any Guaranteed Amounts in respect of interest (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

"**Guarantor Regulatory Deficiency Redemption Deferral Event**" means any event which (including, without limitation, any event which causes the Solvency Capital Requirement or Minimum Capital Requirement applicable to the Guarantor, the Insurance Group or any member of the Insurance Group to be breached and such breach is an event which) under Solvency II and/or under the Relevant Rules would require the Guarantor (in its capacity as the Guarantor or if it were treated as issuer of the Notes) to defer or suspend repayment or redemption of (or payment of any Guaranteed Amounts in respect of repayment or redemption of) the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

"**Guarantor Solvency Condition**" has the meaning given in Condition 4.6;

"**Guarantor Winding-Up**" has the meaning given in Condition 4.3;

"**Initial Interest Rate**" has the meaning given in Condition 5.3;

"**Insurance Group**" means the Issuer, the Guarantor and the Issuer's other Subsidiaries;

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

"**Interest Payment Date**" means 10 October in each year, commencing 10 October 2015;

"**Interest Period**" means the period from (and including) one Interest Payment Date (or in the case of the first Interest Period, from the Issue Date) to (but excluding) the next (or in the case of the first Interest Period, the first) Interest Payment Date;

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

"**Issue Date**" means 10 October 2014;

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

"**Issuer Interest Portion**" means, in respect of an Issuer Recovered Amount, an amount equal to such Issuer Recovered Amount multiplied by a fraction the numerator of which is the Total Issuer Interest Amount and the denominator of which is the aggregate of the Total Issuer Interest Amount and the principal amount of the Notes outstanding as at the date of the Issuer Winding-Up;

"**Issuer Non-Interest Portion**" means the Issuer Recovered Amount less the Issuer Interest Portion;

"**Issuer Recovered Amount**" has the meaning given in Condition 3.3;

"**Issuer Recovered Amount Payment Date**" means, in respect of any Issuer Recovered Amount, the date on which such Issuer Recovered Amount is paid by the liquidator or administrator (as applicable) of the Issuer to the Noteholders (or the Trustee on their behalf);

"**Issuer Solvency Condition**" has the meaning given in Condition 3.4;

"**Issuer Winding-Up**" has the meaning given in Condition 3.2;

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

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

"**Junior Securities of the Guarantor**" has the meaning given in Condition 4.3;

"**Junior Securities of the Issuer**" has the meaning given in Condition 3.2;

"**Liabilities**" means the unconsolidated gross liabilities of the Issuer or the Guarantor (as the case may be) as shown in the latest published audited balance sheet of the Issuer or the Guarantor (as the case may be), 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;

"**Lower Tier 2 Capital**" has the meaning given by the PRA from time to time;

"**Mandatory Interest Deferral Date**" means each Interest Payment Date (i) in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date or (ii) where payment of interest on that date would breach the provisions of Solvency II and/or the Relevant Rules which apply to Tier 2 Capital;

"**Margin**" means 385.2 basis points (being the initial margin of 285.2 basis points plus 100 basis points);

"**Maturity Date**" means 10 October 2045;

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

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

"**Noteholder**" has the meaning given in Condition 1.2;

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

"**Official List**" means the official list of the UK Listing Authority;

"**Optional Interest Payment Date**" means any Interest Payment Date other than a Compulsory Interest Payment Date or a Mandatory Interest Deferral Date;

"**Original Territory**" has the meaning given in Condition 14;

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

"**Pari Passu Creditors of the Issuer**" means creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders including holders of Pari Passu Securities of the Issuer;

"**Pari Passu Securities of the Guarantor**" has the meaning given in Condition 4.3;

"**Pari Passu Securities of the Issuer**" has the meaning given in Condition 3.2;

"**Paying Agents**" means the Principal Paying Agent and the Registrar (and such term shall include any successor, replacement or additional paying agents appointed under the Agency Agreement);

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

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

"**Qualifying Tier 2 Securities**" means securities issued directly or indirectly by the Issuer 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, and provided that a certification to such effect (including as to the consultation with the independent investment bank and in respect of the matters specified in (1) to (7) below) signed by two Directors shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without liability to any person) prior to the issue of the relevant securities) provided that (without prejudice to the foregoing) they shall (1) contain terms which comply with then current requirements of the PRA in relation to Tier 2 Capital (or, at any time prior to Solvency II Implementation, Lower Tier 2 Capital); (2) bear at least the same rate of interest from time to time applying to the Notes and preserve the Interest Payment Dates; (3) contain terms providing for mandatory and/or optional deferral of payments of interest and/or principal only if such terms are not materially less favourable to an investor than the mandatory and optional deferral provisions, respectively, contained in the terms of the Notes; (4) rank senior to, or *pari passu* with, the Notes; (5) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer and the Guarantor as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption, provided that such Qualifying Tier 2 Securities may not be redeemed by the Issuer prior to the First Call Date (save for redemption, exchange or variation on terms analogous with the terms and Conditions 8.6 and 8.7); (6) not contain terms providing for, requiring or entitling the Issuer to effect loss absorption through principal write-down or conversion to ordinary shares; (7) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Noteholders and not been paid; and (8) benefit from a guarantee from the Guarantor subordinated on the same basis and to the same extent as the Guarantee; and

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

"**Rating Agency**" means each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Limited or any successor thereof;

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

(a) Qualifying Tier 2 Securities; and

(b) assigned by each Rating Agency substantially the same equity content or, at the absolute discretion of the Issuer, a lower equity content (provided such equity content is still higher than the equity content assigned to the Notes after the occurrence of the Ratings Methodology Event) as that which was assigned by the relevant Rating Agency to the Notes on or around the Issue Date and provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the issue of the relevant securities (upon which the Trustee shall be entitled to rely without liability to any person);

"**Ratings Methodology Event**" will be deemed to occur upon 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 content assigned by that Rating Agency to the Notes is, as notified by that Rating Agency to the Issuer or as published by that Rating Agency, reduced when compared to the equity content assigned by that Rating Agency to the Notes on or around the Issue Date;

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

"**Reference Bond**" means for any Reset Date the UK government bond selected by the Issuer on the advice of an investment bank of international repute that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in sterling and with a five year tenor;

"**Reference Government Bond Dealer**" means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (i) primary government securities dealers, and their respective successors, or (ii) market makers in pricing corporate bond issues;

"**Reference Government Bond Dealer Quotations**" means, with respect to each Reference Government Bond Dealer, the arithmetic average, as determined by the Calculation Agent, of the bid and offered yields for the relevant Reference Bond quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

"**Register**" has the meaning given in Condition 1.1;

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

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

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

"**Regulatory Deficiency Interest Deferral Event**" means any event which (including, without limitation, any event which causes the Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, the Insurance Group or any member of the Insurance Group to be breached and such breach is an event

which) under Solvency II and/or under the Relevant Rules would require the Issuer to defer payment of interest in respect of the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

"**Regulatory Deficiency Redemption Deferral Event**" means any event which (including, without limitation, any event which causes the Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, the Insurance Group or any member of the Insurance Group to be breached and such breach is an event which) under Solvency II and/or under the Relevant Rules would require the Issuer to defer or suspend repayment or redemption of the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by an Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13;

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

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

"**Reset Date**" means the First Call Date and the Interest Payment Dates falling on 10 October 2030, 10 October 2035 and 10 October 2040;

"**Reset Rate**" means, at any time on or after the First Call Date, the 5 Year Gilt Rate (as determined by the Calculation Agent on the date falling one Business Day prior to each Reset Date), plus the Margin;

"**Senior Creditors of the Guarantor**" means (a) any policyholders of the Guarantor (and, for the avoidance of doubt, the claims of Senior Creditors of the Guarantor who are policyholders shall include all amounts to which they would be entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive, or expectation of receiving, benefits which policyholders may have); (b) unsubordinated creditors of the Guarantor (other than policyholders); and (c) subordinated creditors of the Guarantor, other than those whose claims constitute (or relate to a guarantee or other like or similar undertaking or arrangement given by the Guarantor in respect of any obligation of any other person which constitute), or would but for any applicable limitation on the amount of any such capital constitute, Tier 1 Capital, Upper Tier 2 Capital (issued prior to Solvency II Implementation), Lower Tier 2 Capital (issued prior to Solvency II Implementation), or Tier 2 Capital (issued on or after Solvency II Implementation) or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders);

"**Senior Creditors of the Issuer**" means (a) unsubordinated creditors of the Issuer and (b) subordinated creditors of the Issuer, other than those whose claims constitute (or relate to a guarantee or other like or similar undertaking or arrangement given by the Issuer in respect of any obligation of any other person which constitute), or would but for any applicable limitation on the amount of any such capital, constitute Tier 1

Capital, Upper Tier 2 Capital (issued prior to Solvency II Implementation), Lower Tier 2 Capital (issued prior to Solvency II Implementation), or Tier 2 Capital (issued on or after Solvency II Implementation) or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders;

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

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

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

"**Solvency II Implementation**" means the implementation by the PRA, or other direct application to the Issuer and/or the Insurance Group, of Solvency II or any other change in law or any Relevant Rules (or, if later, the coming into effect of the same with respect to the Issuer, the Guarantor and/or the Insurance Group);

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

"**sterling**" or "**pence**" or "**£**" means the lawful currency of the United Kingdom;

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

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

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

"**Successor**" has the meaning given in Condition 16;

"**successor in business**" means in relation to the Guarantor any company which as a result of any amalgamation, merger or reconstruction, beneficially owns the whole or substantially the whole of the undertaking, property and assets owned by the Guarantor prior to such amalgamation, merger, reconstruction or agreement coming into force and carries on as successor to the Guarantor the whole or substantially the whole of the business carried on by the Guarantor immediately prior thereto;

"**Taxes**" has the meaning given in Condition 9;

"**Tier 1 Capital**" has the meaning given by the PRA from time to time;

"**Tier 2 Capital**" has the meaning given by the PRA from time to time;

"**Total Guarantor Interest Amount**" means the aggregate of (i) interest accrued (but unpaid) on the Notes from the last Interest Payment Date preceding the Guarantor Winding-Up to the date of the Guarantor Winding-Up and (ii) Arrears of Interest;

"**Total Issuer Interest Amount**" means the aggregate of (i) interest accrued (but unpaid) on the Notes from the last Interest Payment Date preceding the Issuer Winding-Up to the date of the Issuer Winding-Up and (ii) Arrears of Interest;

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

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

"**UK Listing Authority**" means the FCA in its capacity as competent authority under the Financial Services and Markets Act 2000; and

"**Upper Tier 2 Capital**" has the meaning given by the PRA from time to time.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Certificates

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

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

Relationship of Accountholders with Clearing Systems

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

Exchange

The following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2.1 may only be made in part:

(i) if the relevant 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; or

(ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Amendment to Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Conditions set out in this Prospectus. The following is a summary of certain of those provisions:

Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be 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.

Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificate shall be treated as being entitled to one vote in respect of each £1,000 in principal amount of the Notes.

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for a clearing system, then:

(i) approval of a resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution (as defined in the Trust Deed) to be passed at a meeting for which the Special Quorum (as defined in the Trust Deed) was satisfied), 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; and

(ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantor and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the Guarantor and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer, the Guarantor and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution

passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. None of the Issuer, the Guarantor or the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general corporate purposes of the Group.

THE RSA GROUP

Overview of the Group

The Issuer, RSA Insurance Group plc, is the holding company for a leading international general insurance group, currently operating in 30 countries and providing products and services in over 140 countries through a global network of local partners. As the Issuer is a holding company, it is dependent on dividends, distributions and other payments from its subsidiaries.

Through its operations and its global distribution network, the Issuer and its subsidiaries ("**RSA**" or the "**Group**") offer a broad range of personal and commercial general insurance products. The Group's products for personal customers include personal motor, home, personal accident, pet and travel insurance. The Group's products for commercial customers include marine, construction, power and renewable energy, motor, liability, professional financial and property insurance. The Group also provides support services for its global operations, including risk and claims management and loss control services.

The Issuer is a public limited company of infinite duration domiciled in England and Wales. The Issuer was incorporated and registered in England and Wales on 26 January 1989 as a company limited by shares with the name Sun Alliance Group plc and registered number 2339826. On 20 May 2008 the change of the Issuer's name from Royal & Sun Alliance Insurance Group plc to RSA Insurance Group plc took effect. The principal legislation under which the Issuer operates is the Companies Act 2006.

The Issuer's registered office is at 20 Fenchurch Street, London EC3M 3AU. The telephone number of the Issuer's registered office is +44 (0) 20 7111 7000.

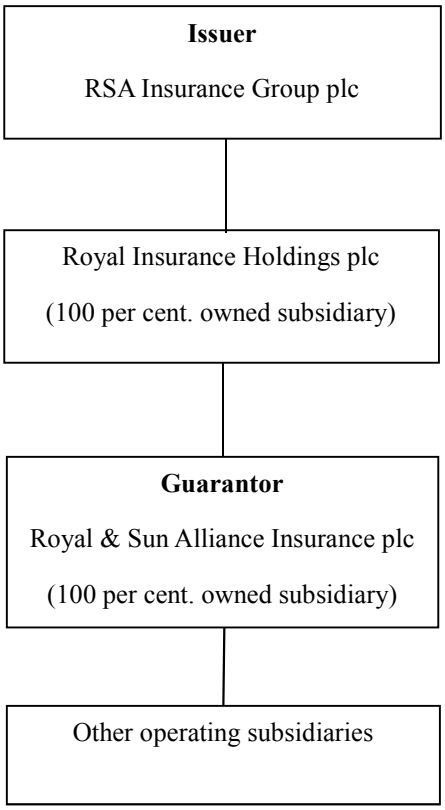
The Guarantor, Royal & Sun Alliance Insurance plc, is an indirect wholly owned subsidiary of the Issuer and is a regulated insurance company. The principal operating subsidiaries of the Group are the Guarantor and the subsidiaries of the Guarantor.

The Guarantor was originally constituted by a deed of settlement dated 31 May 1845, completely registered under the Joint Stock Companies Act 1844 and re-registered as an unlimited liability company on 1 November 1862, as a limited liability company on 19 June 1907 and as a public limited company of infinite duration on 1 January 1982 with limited liability in England and Wales. The Guarantor's registered number is 93792. The principal legislation under which the Guarantor operates is the Companies Act 2006.

The Guarantor's registered office is at St Mark's Court, Chart Way, Horsham, West Sussex RH12 1XL. The telephone number of the Guarantor's registered office is +44 (0) 1403 232 323.

The Group was formed in 1996 through the merger of two of the then largest composite insurers in the United Kingdom, Royal Insurance Holdings plc and Sun Alliance Group plc. The Group can trace its history back over 300 years to the establishment of the Sun Insurance Office, which is one of the world's oldest insurance companies. The Group also has a long international history, having operated in mainland Europe since the early 1800s, and in Canada and Latin America since the 1850s.

The following chart shows in simplified form the organisational structure of the Group:



The Business of the Group

The following table sets out the key measures of the Group during the periods under review:

	FY 2012 (restated)[1]	FY 2013	H1 2013 (restated)[2]	H1 2014[3]
COR (%)	95.6	99.6	94.2	100.8
Profit/(loss) after tax (£m)	327	(338)	190	6
Underwriting result (£m)	358	57	188	2
Investment result (£m)	431	333	192	166
Insurance result (£m)	789	390	380	168
Operating result (£m)	667	286	343	141

Notes:

(1) ***Restatement of FY 2012 results.*** The Group's income statement for FY 2012 was restated in FY 2013 to reflect revisions to IAS 19 (Employee Benefits). Under the revised standard, expected returns on plan assets are no longer recognised in profit or loss. The expected returns are replaced by recording interest income in profit or loss, which is calculated using the discount rate used to measure the pension obligations. The Group refers to the restatement of the income statement to reflect revisions to IAS 19 as the "Pension Restatement".

(2) ***Restatement of H1 2013 results.*** In 2014, the Group's basis of measuring the investment result was changed to include the investment expense, which had previously been reported under central expenses. The above table shows the H1 2014 results, which were prepared on this revised basis, and the 2013 results restated to take account of this change. Were the FY 2012 and FY 2013 results to be restated to reflect this revised basis of preparation, the Group's investment result for FY 2013 would have been £302m (FY 2012: £398m) and the Group's insurance result for FY 2013 would have been £359m (FY 2012: £756m).

(3) During the first half of 2014, the Group reached agreements to sell its Baltics (Latvia, Lithuania and Estonia) and Poland operations. These were disclosed as discontinued operations at H1 2014, together with comparatives. The figures stated in each column above are on a consistent reporting basis and therefore include the discontinued operations.

The Group recognised a loss after tax of £338 million in FY 2013 (FY 2012: profit of £327 million), reflecting the impact of the claims and financial irregularities, and reserve strengthening, in Ireland, adverse weather across Scandinavia, Canada and the UK, as well as write-downs of software intangible assets and goodwill. In H1 2014, the Group recognised a profit after tax of £6 million (H1 2013: £190 million). In H1 2014, the Group's profit before tax was £69 million (H1 2013: £250 million). In H1 2014, £142 million of gains were offset by £133 million of one-off costs including goodwill and intangible write-downs and restructuring costs.

The Group's underwriting result decreased from £358 million in FY 2012 to £57 million in FY 2013 and decreased from £188 million in H1 2013 to £2 million in H1 2014.

The Group's net written premiums ("**NWP**") increased from £8,353 million in FY 2012 to £8,664 million in FY 2013. During this period, the proportion of NWP from Canada and Emerging Markets increased, with Scandinavia and Western Europe remaining stable, while NWP from UK decreased. In H1 2014, the Group's NWP was £3,930 million (H1 2013: £4,652 million), reflecting the impact of the portfolio actions which have been taken.

The Group's net investment result (on a management basis) decreased from £431 million in FY 2012 to £333 million in FY 2013. This decrease primarily reflected the continued low bond yield environment, as the Group's reinvestment rates continued to be lower than the underlying portfolio yield. In H1 2014, the Group's net investment result (on a management basis) was £166 million (H1 2013: £192 million), reflecting the fact that the average book yield was down approximately 40 basis points in H1 2014 compared with H1 2013. For further information on the Group's investment portfolio, see page 15 of the Issuer's Interim Financial Statements which is incorporated by reference in this Prospectus.

The Group's combined operating ratio ("**COR**") was 95.6 per cent. in FY 2012, 94.2 per cent. in H1 2013, 99.6 per cent. in FY 2013 and 100.8 per cent. in H1 2014. The increase from FY 2012 to FY 2013 reflected weather losses (3.5 per cent. of net earned premiums compared to 2.2 per cent. in FY 2012) attributable to weather events across Canada, Scandinavia and the UK, and also the impact of events in Ireland described above and in the risk factor entitled "*The Group is exposed to risks relating to fraud and misconduct*" on page 19 of this Prospectus.

As of 30 June 2014, the Group had total assets of £22,303 million (31 December 2013: £21,930 million; 30 June 2013: £23,439 million (restated); 31 December 2012: £22,785 million), net assets (total assets minus total liabilities) of £3,840 million (31 December 2013: £3,014 million; 30 June 2013: £3,929 million (restated); 31 December 2012: £3,879 million) and financial assets and cash and cash equivalents of £13,790 million (31 December 2013: £13,421 million; 30 June 2013: £13,933 million; 31 December 2012: £13,989 million).

As of 30 June 2014, the Group's total loan capital and financial indebtedness was £1,602 million (31 December 2013: £1,610 million; 30 June 2013: £1,611 million; 31 December 2012: £1,607 million).

The following tables set forth a segmental breakdown of the key measures in the Group's results of operations for the periods under review.

	FY 2012		FY 2013		H1 2013		H1 2014	
	£m	*%*	*£m*	*%*	*£m*	*%*	*£m*	*%*
NWP								
Scandinavia	1,791	22	1,863	22	1,118	24	1,059	27
Canada	1,614	19	1,755	20	866	18	727	18
UK & Western Europe	3,689	44	3,589	41	1,946	42	1,592	41
Emerging Markets	1,237	15	1,403	16	686	15	607	15
Central functions	22	—	54	1	36	1	(55)	(1)
Total	**8,353**	**100**	**8,664**	**100**	**4,652**	**100**	**3,930**	**100**

	FY 2012 (restated)	FY 2013	H1 2013	H1 2014
		£m		
Underwriting result				
Scandinavia	237	225	98	105
Canada	101	10	15	12
UK & Western Europe	(8)	(226)	50	(86)
Emerging Markets	33	46	12	(23)
Central functions	(5)	2	13	(6)
Total	**358**	**57**	**188**	**2**

	FY 2012 (restated)	FY 2013	H1 2013	H1 2014
		%		
COR				
Scandinavia	86.6	88.1	87.7	86.7
Canada	93.6	99.3	98.7	98.6
UK & Western Europe	100.0	106.6	95.4	107.6
Emerging Markets	96.9	96.9	97.8	105.9
Group	95.6	99.6	94.2	100.8

Products

The Group provides general insurance products to personal and commercial customers.

The Group's principal products for personal customers include:

- **Personal motor** – insurance varies by territory and typically covers against liability for both bodily injury and property damage and for physical damage to an insured's vehicle from collision and various other risks;
- **Home** – insurance covers against loss of or damage to the buildings and contents of private residences with a range of additional features, such as coverage for valuables away from home and liability arising from ownership or occupancy;
- **Personal Accident** – policies which provide insured benefits in the event of, amongst other things, accidental death or disability;
- **Pet** – policies which provide benefits in the event of veterinary treatment fees, death or loss of pet and third party liability;
- **Travel** – policies which provide benefits in the event of cancellation or curtailment, travel delays, loss of personal baggage or money, emergency medical and travel expenses and legal expenses; and
- **Specialty Covers** – these policies provide coverage associated with an affinity partner. These can include for example coverage in the event of mechanical breakdown of a personal device or domestic appliance or short term death or unemployment benefit offered as part of a package of benefits associated with a credit card.

The Group's products for commercial customers include:

- **Motor** – insurance varies by territory and typically covers businesses against liability for both bodily injury and property damage and for physical damage to an insured's vehicle from collision and various other risks resulting from the ownership, maintenance or use of cars and trucks in a business;
- **Property** – insurance covers against loss or damage to buildings, inventory and equipment from natural disasters, including hurricanes, windstorms, earthquakes, floods, hail, explosions, severe winter weather and other events such as theft and vandalism, fires and financial loss due to business interruption resulting from covered losses;
- **Construction** – insurance covers against loss and damage to buildings, machinery breakdown and liability arising from construction, engineering, operational risk and construction, plant and equipment products;
- **Marine** – insurance covers against physical loss or damage to yachts, boats, marine craft, cargo and stock and liabilities arising from haulage and freight and other marine transportation as well as ports and terminals insurance and aquaculture insurance;
- **Liability** – insurance covers against employers' liability, public liability, professional indemnity and directors' and officers' liability; and
- **Surety** – surety bonds cover losses arising from the failure of a third party to comply with contractual terms of a contract. This can include contractual terms associated with construction projects or excise duties associated with the movement of goods.

Distribution

The Group employs a wide range of distribution strategies tailored to meet the needs of local markets across the world. Many of these markets are dominated by insurance brokers and other intermediaries with whom the Group has built long-term relationships. Through strategic partnerships with the global brokers, the Group writes complex international covers and also works closely with smaller brokers.

The Group has also developed direct distribution businesses where customers purchase policies over the phone or, increasingly, online. The Group trades through distribution partnerships with affinity partners such as building societies, banks, managing general agents, retailers, motor manufacturers, charities, utilities and unions across the world. The Board believes that this multi-channel distribution strategy allows the Group to reach a broad cross-section of personal and commercial customers.

Insurance Business

The Group currently operates through the following four segments, based on where its business is underwritten or managed: Scandinavia (comprising Denmark, Norway and Sweden); Canada; UK & Western Europe (comprising the UK, Ireland and Italy); and Emerging Markets (comprising Latin America, Central and Eastern Europe, the Middle East and Asia). It also reports a Central functions segment.

In H1 2014, the Group's net written premiums were split among the segments as follows: Scandinavia: 27 per cent. Canada: 18 per cent.; UK & Western Europe: 41 per cent. (of which UK: 34 per cent. and Ireland 4 per cent.); Emerging Markets: 15 per cent. (of which Latin America: 8 per cent.); and Central functions: (1) per cent..

Scandinavia

The Group's operations in Scandinavia are led by Patrick Bergander. RSA is the third largest property and casualty insurer in Denmark (on the basis of gross earned premiums) and Sweden (on the basis of gross written premiums), operating as Codan and Trygg-Hansa, respectively. Codan also has a growing business in Norway where it is the seventh largest property and casualty insurer (based on portfolio premiums). The market structure across the region has been very stable for a number of years with market shares changing very little. RSA is the only global insurer with significant retail and commercial operations in Scandinavia. Distribution of personal products in Scandinavia is almost exclusively via direct channels and commercial products distribution is based on a mix between broker and direct, but with the majority of products (approximately two-thirds) sold through direct channels.

Canada

The Group's operations in Canada are led by Rowan Saunders. RSA has a top four position in Canada's private sector property and casualty insurance market (on the basis of direct written premiums). The Board believes that RSA has a strong distribution proposition in the Canadian marketplace, with an established offering across intermediated, direct and affinity channels which means that the Group is able to reach a broad base of customers. RSA's October 2012 acquisition of L'Union Canadienne broadened the Group's operations to cover all regions of Canada. RSA distributes personal and commercial products through intermediaries under the RSA brand. In addition, RSA is a top-three affinity writer in Canada (based on direct written premiums), through Johnson, RSA's direct personal offering.

UK and Western Europe

As of January 2015, the Group's operations in the United Kingdom and Western Europe will be led by Steve Lewis. In the United Kingdom, RSA is one of the largest commercial insurers, operating as RSA through intermediaries, and has a significant personal lines business, operating through intermediaries and affinity partners, as well as MORE TH>N in the direct market. RSA has an established business in Ireland, operating as RSA through intermediaries and as 123.ie in the direct market. The Italian operation is purely intermediated, through brokers and non-tied agents and is focused predominantly in the north and centre of the country. RSA also has RSA-branded specialty operations in Belgium, France, Germany, the Netherlands and Spain.

Emerging Markets

RSA has an Emerging Markets business with a particular focus on Latin America, where it has a strong presence and operates across six countries. As part of its strategic plan to focus on its core businesses, the Group is reviewing its presence in other Emerging Market regions.

RSA is the number one general insurer in Chile (on the basis of gross written premiums) and the third largest insurer in Uruguay (on the basis of net written premiums), as well as a leading insurer in Argentina and a leading marine insurer in Brazil. RSA also has operations in Mexico and Colombia. RSA writes both personal and commercial lines in Latin America, primarily motor and marine insurance. RSA distributes products in Latin America through major international brokers, local agents and brokers and corporate partnerships. The Group also writes business on a direct basis in Argentina under the Answer brand, with RSA as the endorsing brand.

Strategy and recent developments

RSA's longer term strategic priorities are to:

- focus on markets where the Group can achieve profitable growth;
- serve customers well and be easy to understand;
- be prudently managed, comfortably capitalised and prudently reserved; and
- build value for shareholders and other stakeholders, including through an efficient cost base.

The following are the key elements of the Group's action plan to deliver on its new strategic focus and address the challenges that had accumulated over the past years, together with details of where the Group has made progress in 2014 in addressing those challenges:

1 Tighten the strategic focus of the Group in order to perform sustainably well in core businesses

The Group targets a business mix which comprises lines where RSA believes it has strong customer appeal, sustainable market leadership positions, valuable business and financial benefits from diversification and balance, and management and financial capacity to succeed. RSA considers its core businesses to be Scandinavia, Canada, UK & Ireland and Latin America. Within the core businesses the Group has largely completed a portfolio review which identified certain low-return, non-strategic portfolios which it will seek either to restructure or exit by the end of 2015. The Group is reviewing its presence in Central and Eastern Europe, Asia, the Middle East and the rest of Europe. Selected business disposals are underway, through which the Group intends to reduce the geographical spread of its operations. The following disposals have already been announced:

(a) **Baltics and Poland** – the Group has reached agreement, subject to regulatory approvals, to sell each of Lietuvos Draudimas AB (Lithuania), AAS Balta (Latvia), the business of the Estonian branch of Codan Forsikring A/S (together the Group's operations in the Baltics), and Link4 Towarzystwo Ubezpieczen Spolka Akcyjna (Poland) to Powszechny Zakład bezpieczeń sa. The disposal in Latvia has completed and a gain of £17 million was recognised on the sale. The disposal in Poland has also completed;

(b) **Noraxis in Canada** – the Group has sold its shareholding in Noraxis Capital Corporation, its Canadian insurance brokerage business, to a subsidiary of Arthur J. Gallagher & Co. A gain of approximately £148 million (after tax) was recognised upon the sale;

(c) **China** – the Group has reached agreement, subject to regulatory approval, to sell Sun Alliance Insurance (China) Limited to Swiss Re Corporate Solutions; and

(d) **Singapore and Hong Kong** – the Group has reached agreement, subject to regulatory approvals, to sell the insurance business of each of its branches in Singapore and Hong Kong to Allied World Assurance Company, Ltd.

Other elements of the Group's portfolio remain under review, including the rest of the Group's operations in Asia, the Middle East and Western Europe. Further disposals are anticipated in 2014 and 2015.

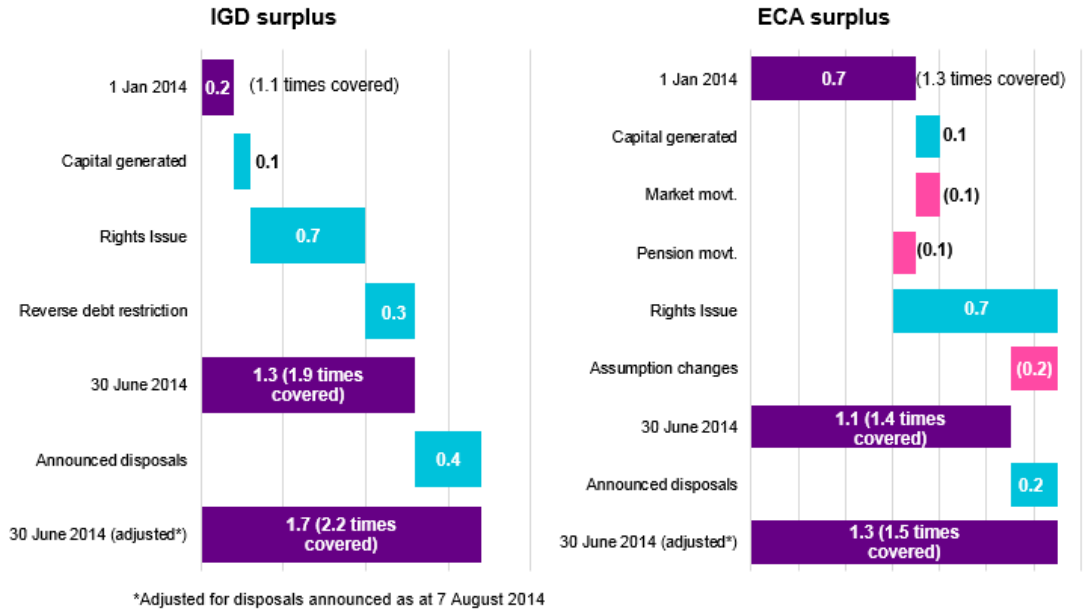
2 Reset the quality and quantity of capital strength the Group works with and the disciplines that will sustain it

The Group will seek to maintain capital metrics that are at least at median comparable industry levels. The following table sets out the Group's focus areas, measures and targets in relation to its capital position, together with progress against those targets as at 30 June 2014:

Focus Area	Measure	Target	Progress
Capital backing the Group's business	Ratio of tangible net asset value to net written premiums	35-45% preliminary target	33% (39% adjusted*)
Regulatory capital	Surplus under Insurance Groups Directive	Median or better compared to peer group	1.9 times covered (2.2 times adjusted*)
	Surplus under Individual Capital Assessment	In line with PRA expectations or better	Currently above PRA expectations
	Solvency II	To be advised	Working towards application for internal model approval in 2015
Rating agency capital	Credit rating	Single A range rating	A (Stable) from Standard & Poor's and A2 (Negative Outlook) from Moody's
Economic capital	Surplus under Economic Capital Assessment	115% at 1-in-1,250 years	1.4 times covered (1.5 times adjusted*)
Debt leverage	Ratio of debt to debt plus tangible net asset value plus preference share capital and non-controlling interests	Within the range of peer group	Reduction from 41% as at 31 December 2013 to 28% adjusted*

* Adjusted for disposals announced as at 7 August 2014.

At these levels, regulatory, rating agency and economic capital measures should be in a position which the Group believes to be comfortable. In April, the Issuer raised £773 million (£748 million net of expenses) by way of a fully underwritten rights issue in order to meet the Group's strategic needs while restoring the Group to what the board of directors of the Issuer believed to be an appropriate capital position. This, together with the gains from the disposals referred to above and profits generated, is substantially restoring the Group's tangible equity. As at 30 June 2014, the Group's Insurance Groups Directive ("**IGD**") surplus was £1.3 billion (coverage of 1.9 times its requirement) and the Group's estimated Economic Capital Assessment ("**ECA**") surplus was £1.1 billion (coverage of 1.4 times its requirement). The following chart sets out the components of the Group's improvements to its IGD surplus and ECA surplus since 1 January 2014:



*Adjusted for disposals announced as at 7 August 2014

Details of the Group's reserving position are set out in the bullet point entitled "Focus on underwriting result" in Section 3 of Part VI and Sections 8.1 and 8.2 of Part VII of the Rights Issue Prospectus, which are incorporated by reference in this Prospectus.

3 Improve business performance and the Group's ability to sustain it

The Group intends to take certain actions, where needed, to improve its business performance, including in relation to underwriting, portfolios, distribution and the expense base. The Group also has an ongoing IT development programme including investment in IT in line with past practice, but with a focus on improved efficiency of spend. Lastly the Group will seek to continue to invest in developing its existing, and recruiting new, employees with the necessary skills required in order to continue to strengthen its business and provide leadership capability in the future.

MANAGEMENT

Directors of the Issuer

The following is a list of directors of the Issuer and their principal directorships (if any) performed outside the Group which are, or may be, significant with respect to the Issuer, as at the date of this Prospectus. The business address of each of the directors referred to below is at 20 Fenchurch Street, London EC3M 3AU.

Name	Position at the Issuer	Other significant directorships
Martin Scicluna	Chairman	Great Portland Estates plc
		Ship Midco Limited (trading as Worldpay)
		Financial Services Trade and Investment Board
Stephen Hester	Group Chief Executive	The Foundation & Friends of the Royal Botanic Gardens, Kew
Richard Houghton	Group Chief Financial Officer	—
Alastair Barbour	Non-executive director	Phoenix Group Holdings
		The Bank of N.T. Butterfield & Son Limited
		CATCo Reinsurance Fund Limited
		CATCo Reinsurance Opportunities Fund Limited
		Liontrust Asset Management plc
		Standard Life European Private Equity Trust plc
		Scottish Equitable Policyholders Trust Limited
Kath Cates	Non-executive director	—
Joseph Streppel	Non-executive director	KPN NV
		Van Lanschot NV
		Arq Foundation
		Duisenberg School of Finance
		Advisory Board of the Royal Dutch Society of Actuaries
Johanna Waterous	Non-executive director	Shoppers Drug Mart Corporation
		Rexam plc
		WM Morrison Supermarkets plc

		Sandpiper C.l. Limited
		RBG Kew Enterprises Limited
		The Foundation & Friends of the Royal Botanic Gardens, Kew
Hugh Mitchell	Non-executive director	Shell International Limited
		Shell Foundation
		Shell Aircraft Limited

Potential conflicts of interest between a director's duties to RSA and his or her private interests and/or other duties arise from:

- Martin Scicluna's directorship of Great Portland Estates plc and Great Portland Estates plc's relationship as a customer of RSA; and
- Johanna Waterous' directorship of WM Morrison Supermarkets plc and WM Morrison Supermarkets plc's relationship as a customer of RSA.

Except for the potential conflicts of interest listed above and as policyholders, no director of the Issuer has any actual or potential conflicts of interest between any of his or her duties to the Issuer and his or her private interests and/or other duties.

Directors of the Guarantor

The following is a list of directors of the Guarantor and their principal directorships (if any) performed outside the Group which are, or may be, significant with respect to the Guarantor, as at the date of this Prospectus. The business address of each of the directors referred to below is at 20 Fenchurch Street, London EC3M 3AU.

Name	Position at the Guarantor	Other significant directorships
David Coughlan	Group Underwriting Director	—
Richard Houghton	Group Chief Financial Officer	—
David Weymouth	Group Operations and Risk Director	Royal London (CIS) Limited
		Royal London Mutual Insurance Society Limited
		Financial Services Compensation Scheme Limited
Paul Whittaker[1]	Chief Operating Officer	—

There are no actual or potential conflicts of interest between the duties to the Guarantor of the persons listed above and their private interests and/or other duties.

[1] Paul Whittaker has been appointed as a director of the Issuer and his appointment remains subject to regulatory approval. He will become a director on the date approval is granted by the regulator.

ESTIMATION TECHNIQUES, UNCERTAINTIES AND CONTINGENCIES

Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance contract liabilities of the company.

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for losses and loss adjustment expenses. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos related losses is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for losses and loss adjustment expenses and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance contract liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate.

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long-term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Uncertainties and contingencies

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will

determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgements that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business. The Group seeks to provide appropriate levels of provisions for losses and loss adjustment expenses and provision for unexpired risks taking the known facts and experience into account.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographic and insurance risk diversity within the Group's portfolio of issued insurance policies mean it is not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance contract liabilities involves the use of judgements and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgements and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to manage such exposure to levels acceptable to the Group.

Asbestos and environmental claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating provisions for losses and loss adjustment expenses cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- the long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims the Group will receive particularly difficult;
- issues of allocation of responsibility among potentially responsible parties and insurers;
- emerging court decisions and the possibility of retrospective legislative changes increasing or decreasing insurer liability;
- the tendency for social trends and factors to influence court awards;
- developments pertaining to the Group's ability to recover reinsurance for claims of this nature; and

- for U.S. liabilities from the Group's London market business, developments in the tactics of U.S. plaintiff lawyers and court decisions and awards.

Potential change in discount rate for lump sum damages awards

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor may review the methodology to be applied in determining the discount rate to calculate the appropriate settlements, or the discount rate itself, in due course. A reduction in the prescribed discount rate would increase the value of future claims settlements.

Potential credit risk for structured settlements

In Canada the Group has purchased annuities from regulated Canadian life insurers in order to pay fixed and recurring payments to certain claimants. This arrangement exposes the group to a credit risk in the event that the life insurers are unable to make these payments which is mitigated by an industry compensation scheme which in that event would assume a significant majority of the remaining outstanding obligations. The likelihood of both a Canadian regulated life insurer and the industry compensation scheme being unable to pay their obligations is considered very remote and so no provision has been recognised in respect of this risk.

For details of further relevant risks to which the Group is exposed, in particular acquisition and disposals risk, contracts with third parties, litigation, disputes and investigations, reinsurance risk, investment risk, the rating environment, foreign exchange risk and the regulatory environment, please see "*Risk Factors*". In addition, there may be other classes of risks which could develop in the future and that could have a material impact on the Group's financial position.

REGULATORY ENVIRONMENT

The Guarantor is the main subsidiary in the Group and is an insurance company authorised in the United Kingdom by the PRA and is subject to the FSMA. Together with the other UK domiciled insurers within the Group, the Guarantor is dual-regulated, i.e. it is subject to regulation and supervision by both the PRA (as regards prudential and organisational requirements) and the FCA (as regards conduct of business requirements). As well as regulating the UK insurance companies within the Group, the PRA has direction over the parent undertaking and, as all other subsidiaries in the Group sit directly or indirectly under the Guarantor, the PRA acts as the group supervisor. The FCA has responsibility for regulating conduct of business activities carried out in the UK only.

In addition to FSMA, UK domiciled insurers must also comply with the rules and guidance of the PRA and the FCA under FSMA. Important sources of these rules and guidance are set out in the PRA Handbook of Rules and Guidance and any other rules, guidance and supervisory statements issued by the PRA from time to time (the "**PRA Handbook**") and the FCA Handbook of Rules and Guidance (the "**FCA Handbook**"). The PRA Handbook includes its Fundamental Rules, the General Prudential Sourcebook ("**GENPRU**"), the Prudential Sourcebook for Insurers ("**INSPRU**") and the Interim Prudential Sourcebook for Insurers ("**IPRU (INS)**").

The Group's principal insurance operations are in the UK, Canada, Denmark and Sweden. Various companies within the Group are subject to regulation by government agencies in the jurisdictions in which they operate. The nature and extent of such regulation varies from jurisdiction to jurisdiction.

UK Regulatory Environment

Financial Services Act 2012

The PRA and the FCA have extensive powers to supervise and intervene in the affairs of the firms they are responsible for regulating, for example, if they consider it appropriate in order to protect policyholders against the risk that the firm may be unable to meet its liabilities as they fall due, that the threshold conditions (see further below) may not be met, that the firm or its parent has failed to comply with obligations under the relevant legislation or rules, that the firm 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 FCA also has the power to take a range of informal and formal disciplinary or enforcement actions in relation to a breach by a firm of FSMA or the rules in the PRA or FCA Handbooks, including private censure, public censure, restitution, fines or sanctions and the award of compensation. The PRA (or FCA where relevant) may also cancel or vary (including by imposing limitations on) the firm's authorisation, including in the case of an insurer cancelling permission to write new policies, thereby putting the firm into run-off.

The Financial Services Act 2012 also conferred new powers on the PRA and FCA. For example, the PRA has the following powers that can, in certain circumstances, be applied directly to qualifying parent undertakings where those parent undertakings are not themselves regulated:

(a) power of direction;

(b) a rule-making power for information gathering; and

(c) a supporting disciplinary power to fine or censure a qualifying parent undertaking for breaches of a direction or an information rule.

Permission to Transact Business

Subject to the exemptions provided in FSMA, no person may effect or carry out contracts of insurance (referred to below as carrying on "insurance business") in the United Kingdom unless authorised to do so under FSMA by the PRA. The PRA has authority to grant regulatory permission to provide insurance for one or more of the classes of business recognised by the EU insurance directives. In deciding whether to grant authorisation, both the PRA and the FCA are required to determine whether the applicant satisfies the requirements of FSMA, including the applicant's ability to meet a set of "threshold conditions". These are the minimum conditions that must be satisfied (both at authorisation and on an ongoing basis) in order for a firm to gain and to continue to have permission to undertake regulated activities in the United Kingdom. The PRA and FCA are each responsible for assessing a set of Threshold Conditions. At a high level, the PRA Threshold Conditions require an insurer's head office to be in the UK, for the business to be conducted in a prudent manner (and in particular that it maintains appropriate financial and non-financial resources), that the insurer is fit and proper and appropriately staffed and that its group is capable of being effectively supervised. Although there is a degree of cross-over with the FCA's Threshold Conditions, the FCA considers them from a customer perspective and in addition includes a condition relating to the insurer's business model and the need for the strategy for doing business to be suitable for its regulated activities. As dual-regulated firms, insurance companies are required to satisfy both the PRA's as well as the FCA's threshold conditions.

Once authorised, in addition to continuing to meet the threshold conditions for authorisation, firms are also required to comply with the high level Fundamental Rules (for the PRA) and Principles for Businesses (for the FCA) and the requirements of the PRA and FCA Handbooks (see further below).

FCA and PRA Handbooks

The FCA's approach to regulation and the standards it requires firms to maintain are set out in the FCA Handbook. Similarly, the PRA Handbook sets out the PRA's rules and other provisions. The PRA has started to move away from the legacy material adopted from the FSA, towards a PRA Rulebook, and firms are currently required to refer to both the PRA Handbook and the FCA Handbook while this transition is underway. FSMA, the FCA Handbook, the PRA Handbook and secondary legislation made under FSMA are also used to implement the requirements contained in a number of EU Directives (applicable throughout the EEA) relating to financial services and to insurance business in particular.

Prudential Standards

It is a fundamental requirement of the PRA's prudential rules that firms maintain adequate financial resources. This requirement and the obligation for a firm to carry out a risk-based assessment of its own capital requirements are contained in GENPRU.

(a) GENPRU

The rules in GENPRU apply to all authorised firms, including insurers. GENPRU covers the overall requirement to have capital resources in excess of a firm's capital resources requirement and sets out what constitutes capital resources and how different firms should calculate their capital requirement. It sets out the main categories of prudential risk against which a firm's assessment of risk should be made. However, a firm's own assessment should be appropriate to its size and the nature and complexity of its business. The categories of prudential risk include credit risk, market risk, liquidity risk, operational risk, insurance risk and certain other types of risk (for example, interest rate risk). Firms are required to manage their businesses to mitigate these risks. To the extent that their actions cannot mitigate risk, they will need to hold additional capital.

(b) INSPRU

The rules in INSPRU apply specifically to insurers and contain further provisions on managing risk and calculating the cover for insurance liabilities (and capital requirements for the business as a whole), including provisions relating to admissibility of assets and limits on counterparty and asset exposures. INSPRU also contains restrictions which seek to limit the activities of the insurer to insurance business and activities directly arising from that business. Details of the Individual Capital Assessment processes can be found in this sourcebook.

(c) IPRU(INS)

IPRU(INS) sets out the residual prudential and notification requirements for insurers, so predominantly consists of financial reporting requirements.

Regulatory Capital

Rules in force in the UK (in large part implementing EU insurance directives) require insurance firms (and, on a consolidated basis, groups of which insurance firms are members) to maintain capital resources equal to, or in excess of, their applicable capital resources requirement. Detailed rules define how to calculate the capital resources requirement and what constitutes capital for these purposes. Under GENPRU, individual companies permitted to carry on insurance business in the UK are required to maintain a minimum level of capital (the "**minimum capital requirement**" or "**MCR**") consistent with the EU insurance directives. Detailed rules in GENPRU and INSPRU define how to calculate the capital resources requirement and what constitutes capital for these purposes.

The MCR for a general insurance firm is calculated as the higher of (i) the base requirement (EU directive minimum) and (ii) the general insurance capital requirement (which is itself calculated as the highest of the "premiums amount", the "claims amount" and the "brought-forward amount" which are each calculated according to rules and guidance in INSPRU).

In addition, general insurers are required to calculate an enhanced capital requirement ("**ECR**") which serves as an indicative measure of the capital resources, in particular the individual capital assessment that the firm may need to hold, based on risk-sensitive calculations applied to insurance, credit, market and other risks arising in relation to its business profile. Again, this is calculated according to rules and guidance in INSPRU.

Rules in the PRA Handbook and INSPRU require a firm to calculate its capital requirements through its own risk assessment (known as an "individual capital assessment" or "**ICA**"). If the PRA disagrees with a firm's ICA, it may draw up its own ICG for the firm, which it will provide on a confidential basis. An ICG can be imposed as a requirement on the scope of the firm's permissions, resulting in that ICG becoming mandatory for the firm.

The Group has adopted a dynamic financial analysis model in developing its ICA, which incorporates the generation of statistical distributions for its insurance, market and credit risk. The modelling has been supplemented by a number of other techniques designed to assess operational risk and incorporate stress and scenario testing. The ICA is submitted for review by the PRA on a Group basis.

The IGD, which was implemented in the UK in 2001, introduced rules for calculation of the group capital adequacy requirements for insurance groups which require European insurance firms to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. Broadly, these rules require insurers with significant holdings in other insurers (20 per cent. or more) and insurance holding companies to calculate their resources on a basis that seeks to prevent double-counting. This calculation is required to be carried out on a regular basis and there is now a requirement for groups to hold this level of capital. The IGD capital adequacy requirement involves aggregating surplus

capital held in a group's regulated insurance subsidiaries, from which are deducted the group's borrowings (other than subordinated debt that qualifies as capital). The IGD requirement is met when the aggregate surplus is a positive number.

EU and EEA Regulatory Environment

The European Union Life and Non-Life Insurance Directives (the "**EU Insurance Directives**") establish a framework for regulation of insurers in the European Union which is extended to the European Economic Area ("**EEA**"). The EU Insurance Directives provide that an authorisation to carry on insurance business granted by the insurance regulator in an EEA Member State where the insurer is incorporated or has its head office (a "**home state regulator**") is valid for the entire EEA (the "**passporting right**"). The home state regulator determines the procedures for exercising the passporting right depending on whether an insurer proposes to establish a branch or provide insurance services on a cross-border basis in another EEA Member State (a "**host state**").

Generally, in accordance with the principles set out in the EU Insurance Directives, prudential regulation of an insurer is a matter for its home state regulator whereas the conduct of business and marketing requirements applicable in a host state are determined by the host state regulator.

Recent and future developments

Solvency II

The EU capital requirements for the insurance sector are designed to ensure that insurers and reinsurers are financially sound, and can withstand adverse events. This protects both policyholders and the stability of the financial system as a whole. The existing solvency regime is over 30 years old. Financial markets have developed significantly during this period, particularly in the last few years.

The EU has for a number of years been developing proposals for the revision of insurers' solvency requirements under the EU insurance Directives, which culminated in the Solvency II Directive (2009/138/EC) ("**Solvency II**"). Solvency II sets out the new solvency regime which will, with effect from 1 January 2016, replace the current EU regulatory framework for the prudential supervision of insurance and reinsurance companies (currently set out in the EU Insurance Directives, often collectively referred to as Solvency I).

Solvency II adopts a three pillar approach to prudential regulation, which is similar to the "Basel II" approach that has already been adopted in the banking sector in Europe:

(a) Pillar 1 relates to minimum capital requirements, covering technical provisions, the SCR and MCR, the rules on market consistent valuation, investment of assets and the use of internal models to calculate the SCR;

(b) Pillar 2 covers risk management, governance requirements, the ORSA and supervisory review; and

(c) Pillar 3 covers public and supervisory reporting and disclosure.

Although the Solvency II Directive has similarities to the current UK regime set out in GENPRU and INSPRU in terms of its risk-based approach to the calculation of capital requirements and use of capital tiering, there are also many differences in terms of both substance and terminology. For example, while both regimes share the principle of a market consistent valuation of assets and liabilities, there are differences in the detailed valuation methodologies.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurance companies will be encouraged to improve their risk management processes and will be allowed to

make use of internal economic capital models to calculate capital requirements, subject to regulatory approval. In addition, Solvency II will require firms to develop and embed an effective risk management system as a fundamental part of running the firm.

The new regime will require firms to disclose a considerably greater level of qualitative and quantitative information than under current rules, both to their own supervisor through Regular Supervisory Reporting ("**RSR**") and to the market through the publication of a Solvency and Financial Condition Report ("**SFCR**"). This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if firms are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of ratings agencies and the capital markets to firms' performance.

The Solvency II "Level 1" Directive was formally adopted by the European Council in November 2009, setting out a framework which will be supplemented by further and more detailed technical implementing measures drafted by the European Commission. Member States are required to implement Solvency II by 31 March 2015 and firms must start complying with the new regime on 1 January 2016. As noted above, the new regime will replace the current EU solvency framework for insurance and reinsurance companies, including the solo ICA regime and the IGD regime. The Group will therefore need approval of its internal model by that date, failing which it must apply the Solvency II standard formula in order to calculate its regulatory capital requirements.

Solvency II will be amended by the Omnibus II Directive ("**Omnibus II**"). Omnibus II was approved by the European Parliament on 11 March 2014, approved by the Council on 14 April 2014 and published in the Official Journal on 22 May 2014. Omnibus II introduces a number of changes to Solvency II, designed to reflect the revised EU financial services supervisory framework (known as the European System of Financial Supervision) and align it with the legislative process introduced by the Lisbon Treaty (including the new process for adopting level 2 measures).

The opportunity has also been taken in Omnibus II to develop Solvency II in other areas. These include authorising the European Commission to implement transitional measures in certain areas (subject to specified maximum periods).

TAXATION

General

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

United Kingdom Taxation

The comments in this part are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who hold their Notes as investments and are the absolute beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders.

References in this part to "interest" shall mean amounts that are treated as interest for the purposes of United Kingdom taxation.

1. Interest on the Notes

While the Notes are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. HM Revenue & Customs have confirmed that securities that are admitted to trading on the Professional Securities Market satisfy the condition of being admitted to trading on the London Stock Exchange.

If the Notes are not or cease to be listed, interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate unless: (i) another relief applies; or (ii) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

2. Payments in respect of the Guarantee

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate.

3. Information Reporting

Information relating to securities may be required to be provided to HM Revenue & Customs in certain circumstances. This may include the value of the Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

EU Directive on the Taxation of Savings Income

Under the Savings Directive, each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for the benefit of, an individual resident or certain limited types of entity established in that other EU Member State; however, for a transitional period, Austria and Luxembourg will instead apply a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

Luxembourg has announced its intention to elect out of the withholding tax system as from 1 January 2015 in favour of an automatic exchange of information.

The Council of the European Union formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive, when implemented, will amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with the Amending Directive by 1 January 2016, which legislation must apply from 1 January 2017. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

FATCA

Certain provisions of U.S. law, commonly known as "**FATCA**", impose a new reporting and withholding regime with respect to (i) certain U.S. source payments, (ii) gross proceeds from the disposition of property that can produce U.S. source interest and dividends and (iii) certain payments made by, and financial accounts held with, entities that are classified as foreign financial institutions for purposes of FATCA. In order to avoid becoming subject to a 30 per cent. withholding tax under FATCA, non-U.S. financial institutions must enter into agreements with the U.S. Internal Revenue Service ("**IRS Agreements**") (as described below) or otherwise be exempt from the requirements of FATCA. Non-U.S. financial institutions that enter into IRS

Agreements or become subject to provisions of local law ("**IGA legislation**") intended to implement an intergovernmental agreement entered into pursuant to FATCA ("**IGAs**"), may be required to identify "financial accounts" held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In addition, in order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable IGA legislation, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution with information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information, consents or documentation made on or after (i) 1 July 2014 in respect of certain U.S. source payments, (ii) 1 January 2017, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) 1 January 2017 (at the earliest) in respect of "foreign passthru payments" and then, for "obligations" that are not treated as equity for U.S. federal income tax purposes, only on such obligations that are issued or materially modified on or after the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed in the Federal Register.

On 12 September 2012, the United Kingdom and the United States entered into the Intergovernmental Agreement to Improve International Tax Compliance and to Implement FATCA (the "**UK IGA**") and the United States agreed to amendments proposed by the United Kingdom on 7 June 2013. Section 222 of the Finance Act 2013 empowers Her Majesty's Treasury to make regulations giving effect to the UK IGA, which were issued, initially coming into force 1 September 2013, and have been the subject of periodic revisions. The UK IGA provides, *inter alia*, that the governments of the United States and the United Kingdom are committed to work together to develop a practical and effective alternative approach to achieve the policy objectives of foreign passthru payment and gross proceeds withholding. It is not yet certain how the United States and the United Kingdom will address withholding on foreign passthru payments, whether such withholding will be required at all or whether payments on instruments such as the Notes will constitute foreign passthru payments.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, the Guarantor, any paying agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE GUARANTOR, THE NOTES AND THE NOTEHOLDERS IS UNCERTAIN AT THIS TIME. EACH NOTEHOLDER SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, HSBC Bank plc and RBC Europe Limited (together, the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 7 October 2014, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe (or procure the subscription) for the Notes at 99.225 per cent. of their principal amount less commissions. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The initial yield of the Notes is 5.219 per cent. on an annual basis. The yield is calculated as at the Issue Date on the basis of the issue price of the Notes. It is not an indication of future yield.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

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

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated 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 the Notes in circumstances in which Section 21(1) of the FSMA does not or, in the case of the Guarantor, would not, if it was not an authorised person apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

None of the Issuer, the Guarantor or any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or the Guarantor that would permit a

public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply, to the best of its knowledge and belief, with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. No Joint Lead Manager has been authorised to make any representation or use any information in connection with the issue, subscription and sale of the Notes other than as contained in this Prospectus or any amendment or supplement to it.

GENERAL INFORMATION

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or before 10 October 2014, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The total expenses related to the admission to trading are estimated to be £5,000.

2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the Guarantee. The issue of the Notes was authorised by a resolution of the board of directors of the Issuer passed on 5 August 2014 and resolutions of a committee of the board of directors of the Issuer passed on 24 September 2014 and 6 October 2014. The giving of the Guarantee by the Guarantor was authorised by a resolution of the board of directors of the Guarantor passed on 24 September 2014.

3. Save for changes as a result of:

   (a) the announcement and completion of selected business disposals, as described in paragraph 1 of the section entitled "Strategy and recent developments" at pages 85 to 86 of this document; and

   (b) a reduction in Group net written premiums for the period from 1 July 2014 to 2 October 2014 (being the latest practicable date prior to the publication of this document) compared with the equivalent period in 2013, reflecting the Group's portfolio action plan and a more disciplined underwriting approach,

   each in line with the Group's stated strategy (as set out in paragraph 1 of the section entitled "Strategy and recent developments" at pages 85 to 86 of this document), there has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2014.

4. Save for changes as a result of:

   (a) £731 million of the proceeds raised by the Issuer by way of fully underwritten rights issue (as more fully disclosed in paragraph 2 of the section entitled "Strategy and recent developments" at pages 86 to 87 of this document) being passed to the Guarantor by way of loan and, for the most part, invested by the Guarantor in low-risk investments;

   (b) the announcement and/or completion of disposals of certain branches and subsidiaries of the Guarantor in line with the Group's stated strategy (further details of which are set out in paragraph 1 of the section entitled "Strategy and recent developments" at pages 85 to 86 of this document);

   (c) a reduction in net written premiums for the period from 1 January 2014 to 2 October 2014 (being the latest practicable date prior to the publication of this document) compared with the equivalent period in 2013, reflecting the Group's portfolio action plan and a more disciplined underwriting approach;

   (d) the sale of the majority of ordinary equity securities held for investment purposes (as disclosed in the risk factor entitled "The Group is exposed to risks in relation to its investments" on page 26 of this document), the proceeds of which have been invested in debt securities or are held as cash, intended to reduce the volatility of the Guarantor's investments;

(e) the entry into a £550 million adverse development cover with Berkshire Hathaway in January 2014 (a description of which is set out in the bullet point entitled "Focus on underwriting result" in Section 3 of Part VI of the Rights Issue Prospectus, which is incorporated by reference into this document);

(f) lower retentions under, and a material increase in reinsurance creditors as a result of, the new Motability contract (effective from 1 October 2013);

(g) Standard & Poor's upgrade of the Guarantor's credit rating to A (Stable) in February 2014;

(h) approximately £57 million of goodwill impairment charge and write-down of intangible assets in the Irish business;

(i) foreign exchange movements, notably the strengthening of the pound sterling, driving net written premiums of the Guarantor and its subsidiaries down (with net written premiums between 1 January 2014 and 30 June 2014 approximately 9 per cent. lower than the equivalent period in 2013 on a constant exchange rate basis, but 16 per cent. lower at reported exchange rates)[2]; and

(j) a reduction in underwriting result for the period from 1 January 2014 to 2 October 2014 (being the latest practicable date prior to the publication of this document) compared with the equivalent period in 2013, principally reflecting adverse prior year claims development and current year losses in Ireland in the period from 1 January 2014 to 30 June 2014 and as disclosed in the Issuer's Interim Financial Statements which are incorporated by reference into this document,

there has been no significant change in the financial or trading position of the Guarantor since 31 December 2013.

5. There has been no material adverse change in the prospects of the Issuer, the Guarantor or the Group since 31 December 2013.

6. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor are aware) during the 12 months proceeding the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Group.

7. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code is 112008128 and the International Securities Identification Number (ISIN) is XS1120081283.

   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.

8. There are no material contracts entered into other than in the ordinary course of the Issuer's or Guarantor's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's or Guarantor's ability to meet its obligations to Noteholders in respect of the Notes being issued.

[2] The Group operates in 30 countries. Accordingly, its net assets are subject to foreign exchange rate movements and, if the value of the pound sterling strengthens then the value of non-pound sterling assets will decline when translated into pounds sterling. All foreign exchange exposures sit within the Guarantor and its subsidiaries and any reduction in total return of a subsidiary of the Guarantor will be reflected in the Guarantor's valuation of its investment in that subsidiary.

9. The Issuer's Annual Financial Statements for the financial year ended 31 December 2012 have been audited by Deloitte LLP of 2 New Street Square, London EC4A 3BZ, United Kingdom as chartered accountants and registered auditors of the Issuer for such financial year and an unqualified opinion has been given thereon. The Issuer's Annual Financial Statements for the financial year ended 31 December 2013 have been audited by KPMG LLP of 15 Canada Square, London E14 5GL, United Kingdom as chartered accountants and registered auditors of the Issuer and an unqualified opinion has been given thereon.

   The Guarantor's Financial Statements for the financial year ended 31 December 2012 have been audited by Deloitte LLP of 2 New Street Square, London EC4A 3BZ, United Kingdom as chartered accountants and registered auditors of the Guarantor for such financial year and an unqualified opinion has been given thereon. The Guarantor's Financial Statements for the financial year ended 31 December 2013 have been audited by KPMG LLP of 15 Canada Square, London E14 5GL, United Kingdom as chartered accountants and registered auditors of the Guarantor and an unqualified opinion has been given thereon.

   On the recommendation of the Group Audit Committee, KPMG LLP were appointed as auditor of the Issuer and the Guarantor with effect from May 2013 following a rigorous tender process for external auditor services and the resignation of Deloitte LLP. Deloitte LLP were the auditor of the Issuer and the Guarantor for the financial year ended 31 December 2012 and KPMG LLP were the auditor of the Issuer and the Guarantor for the financial year ended 31 December 2013.

10. Copies of the following documents will be available, during usual business hours on any weekday (public holidays excepted), for inspection at the office of the Principal Paying Agent from the date of this Prospectus:

    (a) the Memorandum and Articles of Association of each of the Issuer and the Guarantor;

    (b) the Issuer's Annual Financial Statements, the Issuer's Interim Financial Statements and the Guarantor's Financial Statements;

    (c) the Trust Deed;

    (d) the Agency Agreement; and

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

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

11. The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and/or their affiliates in the ordinary course of business.

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