Prospectus dated 6 November 2012

Friends Life Group plc
(incorporated in England and Wales with limited liability with registered number 06986155)

US$575,000,000
7.875 per cent. Reset Perpetual Subordinated Notes

guaranteed by
Friends Life Limited
(incorporated in England and Wales with limited liability with registered number 04096141)

The US$575,000,000 7.875 per cent. Reset Perpetual Subordinated Notes guaranteed by Friends Life Limited (the "**Guarantor**") (the "**Subordinated Notes**") will be issued by Friends Life Group plc (the "**Issuer**") on or about 8 November 2012 (the "**Issue Date**"). Subject to satisfaction of the Issuer Solvency Condition (as defined herein), to no Regulatory Deficiency Interest Deferral Event (as defined herein) having occurred and unless the Issuer exercises its option to defer interest payments, payments of interest on the Subordinated Notes will be made semi-annually in arrear on 8 May and 8 November in each year. The first payment will be made on 8 May 2013. Payments on the Subordinated Notes or under the Guarantee (as defined herein) will be made without deduction for or on account of taxes of the United Kingdom to the extent described under "*Terms and Conditions of the Subordinated Notes — 9. Taxation*".

The Subordinated Notes have no fixed redemption date and the Issuer shall only have the right to redeem the Subordinated Notes in certain circumstances. Prior to any notice of redemption or any substitution, variation or purchase of the Subordinated Notes, the Issuer will be required to have complied with regulatory rules on notifications to, or consent from, (in either case, if and to the extent required) the UK Financial Services Authority (the "**FSA**") and (in the case of a redemption only) to be in continued compliance with Regulatory Capital Requirements (as defined herein) applicable to it. Subject to that, and to satisfaction of the Issuer Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, the Subordinated Notes may be redeemed at the option of the Issuer on 8 November 2018 or on any Interest Payment Date thereafter or upon the occurrence of certain specified events relating to taxation or to a Regulatory Event (as defined herein) at their principal amount together with any accrued but unpaid interest to (but excluding) the date of redemption and any Arrears of Interest (as defined herein) and as otherwise more particularly described in "*Terms and Conditions of the Subordinated Notes — 6. Redemption, Substitution, Variation and Purchase*". The making of payments by the Guarantor under the Guarantee is subject to the satisfaction of certain conditions as more particularly described in "*Terms and Conditions of the Subordinated Notes*".

The Subordinated Notes will be direct, unsecured and subordinated obligations of the Issuer and, in the event of the winding-up of the Issuer (subject as provided in the Conditions) or in the event of an administrator of the Issuer being appointed and giving notice that it intends to declare and distribute a dividend, there shall be payable by the Issuer in respect of the Subordinated Notes (in lieu of any other payment by the Issuer) such amount, if any, that would have been payable in respect thereof as if, on the day immediately before the commencement of the winding-up and thereafter, the Noteholders were the holders of preference shares (as at the date thereof) in the capital of the Issuer ranking *pari passu* with the holders of the most senior ranking class of issued preference shares of the Issuer, if any, and any other Pari Passu Securities (as defined herein) of the Issuer then outstanding, junior to its Senior Creditors (as defined herein) and in priority to all holders of its Junior Securities (as defined herein), assuming that the holders of such preference shares were entitled to receive on a return of capital in such winding-up an amount equal to the unpaid principal amount of the Subordinated Notes or other amounts due and payable and unpaid on redemption of the Subordinated Notes, together with any unpaid Arrears of Interest and any other interest that has accrued and is unpaid in respect of the Subordinated Notes.

The obligations of the Guarantor under the Guarantee (as defined herein) constitute direct, unsecured and subordinated obligations of the Guarantor and will, in the event of the winding-up of the Guarantor (subject as provided in the Conditions) or in the event of an administrator of the Guarantor being appointed and giving notice that it intends to declare and distribute a dividend, there shall be payable by the Guarantor in respect of the Subordinated Notes (in lieu of any other payment by the Guarantor) such amount, if any, that would have been payable in respect thereof as if, on the day immediately before the commencement of the winding-up and thereafter, the Noteholders were the holders of preference shares (as at the date thereof) in the capital of the Guarantor ranking *pari passu* with the holders of the most senior ranking class of issued preference shares of the Guarantor, if any, and any other Guarantor Pari Passu Securities (as defined herein) then outstanding, junior to the Guarantor Senior Creditors (as defined herein) and in priority to all Guarantor Junior Creditors (as defined herein), assuming that the holders of such preference shares were entitled to receive on a return of capital in such winding-up an amount equal to the amount payable to the Noteholders under the Guarantee (as defined herein).

Application has been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Subordinated 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 Subordinated Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Subordinated Notes being "listed" (and all related references) shall mean that the Subordinated 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 European Council on markets in financial instruments. The denomination of the Subordinated Notes shall be US$200,000 and higher integral multiples of US$1,000 up to and including US$399,000.

The Subordinated Notes will initially be represented by a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be issued in new global note form and will be delivered on or about 8 November 2012 to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable for interests recorded in the records of Euroclear and Clearstream, Luxembourg in a permanent global note (the "**Permanent Global Note**"), without interest coupons, on or after a date which is expected to be 18 December 2012 upon certification as to non-US beneficial ownership. The Permanent Global Note will be exchangeable for definitive Subordinated Notes in bearer form in the denominations of US$200,000 and higher integral multiples of US$1,000 up to and including US$399,000 not less than 60 days following the request of the Issuer or the holder in the limited circumstances set out in it. See "*Summary of Provisions relating to the Subordinated Notes while in Global Form*".

Certain information in relation to the Issuer, the Guarantor and the Friends Life group (as defined herein) has been incorporated by reference into this Prospectus, as set out in the section headed "*Documents Incorporated by Reference*" on pages 5 to 6 of this Prospectus. **You should read the whole of this Prospectus and the documents incorporated herein by reference. In particular, your attention is drawn to the risk factors described in the section entitled "*Risk Factors*" set out on pages 14 to 43 of this Prospectus, which you should read in full.**

The Subordinated Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**"), and may not be offered or sold within the United States or to or for the account or benefit of US Persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Subordinated Notes are being offered and sold by the Joint Bookrunners only outside the United States to non-U.S. persons in compliance with Regulation S. The contents of this Prospectus have been not been reviewed by any regulatory authority in Hong Kong or Singapore. You are advised to exercise caution in relation to the contents of this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. For a description of certain restrictions on resale or transfer, see the section headed "*Selling Restrictions*" in this Prospectus.

The Subordinated Notes are expected to be rated BBB by Standard and Poor's Credit Market Services Europe Limited ("**S&P**") and BBB+ by Fitch Ratings Limited ("**Fitch**"). The Issuer is rated BBB (long term counterparty credit rating) by S&P and A- (long term issuer default rating) by Fitch. The Guarantor is rated A- (insurance financial strength rating and long term counterparty credit rating) by S&P, A+ (insurance financial strength rating) and A (long term issuer default rating) by Fitch. Each of S&P and Fitch is established in the European Union and registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. 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.

Capitalised terms used but not otherwise defined in this Prospectus shall have the meanings given to them in the section entitled "*Definitions*" on pages 110 to 114 of this Prospectus.

Structuring Adviser

HSBC

Joint Bookrunners

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

This document 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 and its subsidiaries, including the AXA UK Life Business (as defined herein) and BHA (as defined herein), acquired in September 2010 and January 2011 respectively, taken as a whole (the "**Friends Life group**"), the Guarantor and the Subordinated Notes which according to the particular nature of the Issuer, the Guarantor, the Subordinated Notes and the Guarantee, 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 and belief 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 documents which are deemed to be incorporated herein by reference (see the section entitled "*Documents Incorporated by Reference*" on pages 5 to 6 of this Prospectus).

No person is, or has been, authorised to give any information or to make any representation other than as contained in this Prospectus in its entirety in connection with the issue or offering of the Subordinated Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or the Joint Bookrunners (as defined in the section of this Prospectus entitled "*Offer and Distribution Restrictions*"). The delivery of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Friends Life group since the date hereof or that there has been no adverse change in the financial position of the Issuer, the Guarantor or the Friends Life group 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 Subordinated 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. Neither this Prospectus nor any other information supplied in connection with the Subordinated Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer that any recipient of this Prospectus or any other information supplied in connection with the Subordinated Notes should purchase any Subordinated Notes. Each investor should make its own independent investigation of the financial condition and affairs, and its own appraisal of the credit-worthiness, of the Issuer and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the Subordinated Notes constitutes an offer of, or an invitation by or on behalf of the Issuer or the Guarantor to any person to subscribe for or purchase, any Subordinated Notes.

To the fullest extent permitted by law, the Joint Bookrunners accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Bookrunner or on its behalf in connection with the Issuer, the Guarantor, the Friends Life group or the issue and offering of the Subordinated Notes. Each Joint Bookrunner 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 Subordinated Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offence in the United States.

This Prospectus does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or a solicitation of any offer to buy or subscribe for, the Subordinated Notes. The distribution of this Prospectus may nonetheless be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus comes are required by the Issuer and the Guarantor to inform themselves about, and to observe, any such restrictions. This Prospectus does not constitute an offering in any circumstances in which such offering is unlawful. Neither the Issuer nor the Guarantor will incur any liability for its own failure or the failure of any other person or persons to comply with the provisions of any such restrictions.

In connection with the issue of the Subordinated Notes, the Joint Bookrunners or any person acting on behalf of the Joint Bookrunners may over-allot Subordinated Notes or effect transactions with a view to supporting the market price of the Subordinated Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Joint Bookrunners (or any persons acting on behalf of the Joint Bookrunners) will undertake stabilisation action. Any stabilisation action, if begun, may be ended at any time, but it must end after a limited period. Any stabilisation action or over-allotment must be conducted by the Joint Bookrunners (or any persons acting on behalf of the Joint Bookrunners) in accordance with all applicable law and rules.

Each potential investor in the Subordinated Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Subordinated Notes, the merits and risks of investing in the Subordinated Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Subordinated Notes and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Subordinated Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Subordinated Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Subordinated Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Subordinated Notes will perform under changing conditions, the resulting effects on the value of the Subordinated Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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 (i) the Subordinated Notes are legal investments for it, (ii) the Subordinated Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Subordinated Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Subordinated Notes under any applicable risk-based capital or similar rules.

FORWARD-LOOKING STATEMENTS

This Prospectus and the information incorporated by reference in this Prospectus include certain "forward-looking statements". Statements that are not historical facts, including statements about the beliefs and expectations of the Issuer, the Guarantor, the Friends Life group, its directors or management, are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "plans", "aims", "potential", "will", "would", "could", "considered", "likely", "estimate" and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the control of the Issuer, the Guarantor or the Friends Life group and all of which are based on their current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Issuer, the Guarantor or the Friends Life group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies of the Issuer, the Guarantor and the Friends Life group and the environment in which the Issuer, the Guarantor and the Friends Life group will operate in the future. These forward-looking statements speak only as at the date of this Prospectus.

Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, the Issuer and the Guarantor expressly disclaim any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Prospectus or incorporated by reference into this Prospectus to reflect any change in the Issuer's or the Guarantor's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

DOCUMENTS INCORPORATED BY REFERENCE

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

(i) the consolidated interim financial statements of the Issuer for the half year ended 30 June 2012, together with the audit review report thereon, as set out on pages 23 to 41 of the interim management report and results for the half year ended 30 June 2012;

(ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2011, together with the audit report thereon, as set out on pages 50 to 150 of the Issuer's directors' report and accounts 2011;

(iii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 23 to 140 of the Issuer's report and accounts 2010;

(iv) the audited financial statements of Friends Life Company Limited for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 10 to 71 of Friends Life Company Limited's directors' report and financial statements 2010;*

(v) the audited financial statements of Friends ASLH Limited for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 7 to 21 of Friends ASLH Limited's directors' report and financial statements 2010;*

(vi) the audited financial statements of Friends Life Assurance Society Limited for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 8 to 65 of Friends Life Assurance Society Limited's directors' report and financial statements 2010;*

(vii) the audited financial statements of Friends Annuities Limited for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 7 to 39 of Friends Annuities Limited's directors' report and financial statements 2010;*

(viii) the audited financial statements of Friends Life Services Limited for the financial year ended 31 December 2010, together with the audit report thereon, as set out on pages 7 to 24 of Friends Life Services Limited's directors' report and financial statements 2010;* and

(ix) paragraph 3.1 of Section B of Part IV of the Rights Issue Prospectus published by Resolution Limited on 29 June 2010 (pages 104 to 106) and the following summaries of the material contracts entered into by the Issuer or the Guarantor or a member of the Friends Life group, contained in the Rights Issue Prospectus:

A. paragraph 3 of Part III of the Rights Issue Prospectus (pages 91 to 93), entitled "Principal terms of the Share Purchase Agreement";

B. paragraph 6 of Part III of the Rights Issue Prospectus (page 94), entitled "Principal terms of the Framework Agreement";

C. paragraph 4 of Part III of the Rights Issue Prospectus (page 93), entitled "Principal terms of the Transitional Services Agreement";

D. paragraph 7 of Part III of the Rights Issue Prospectus (pages 94 to 95), entitled "Principal terms of the Option Agreement";

E. paragraph 8 of Part III of the Rights Issue Prospectus (page 95), entitled "Principal terms of the Master Agreement in relation to Asset Management";

F. paragraph 8 under (E) of Part XV of the Rights Issue Prospectus (pages 302 to 303), entitled "Friends Provident Facility";

G. paragraph 8.2 under (G) of Part XV of the Rights Issue Prospectus (pages 310 to 311), entitled "Issue of £500,000,000 6.292 per cent Step-up Tier One Insurance Capital Securities";

H. paragraph 8.2 under (H) of Part XV of the Rights Issue Prospectus (pages 311 to 312), entitled "Issue of £300,000,000 6.875 per cent Step-up Tier One Insurance Capital Securities";

I. paragraph 8.2 under (K) of Part XV of the Rights Issue Prospectus (pages 312 to 313), entitled "Issue of £161,713,000 12 per cent Fixed Rate Guaranteed Subordinated Notes due 2021";

J. paragraph 8.2 under (I) of Part XV of the Rights Issue Prospectus (page 312), entitled "Life Reassurance Agreement";

K. paragraph 8.2 under (J) of Part XV of the Rights Issue Prospectus (page 312), entitled "Agreement for the provision of IT operational services";

L. paragraph 8.2 under (L) of Part XV of the Rights Issue Prospectus (page 313), entitled "Investment Management Agreements with F&C Asset Managers Limited";

M. paragraph 8.2 under (M) of Part XV of the Rights Issue Prospectus (page 313 to 314), entitled "Agreement with Wipro Limited for the provision of IT services"; and

N. paragraph 8.3 under (A) of Part XV of the Rights Issue Prospectus (page 314), entitled "Outsourcing arrangement with Capita Life & Pensions Regulated Services Limited".

*Items (iv) to (viii) listed above are solus financial statements which have been prepared on a UK GAAP basis and items (i) to (iii) listed above are consolidated financial statements which have been prepared on an IFRS basis.

Individual figures appearing in items (iv) to (viii), which are the financial statements of the principal operating companies of the AXA UK Life Business as at and for the year ended 31 December 2010, should not be directly compared with individual figures appearing in items (i) to (iii) above because the equivalence of such figures is affected by the basis on which they are prepared and the adjustments which are required to be made in order to produce consolidated IFRS financial statements including the requirement to incorporate acquisition accounting adjustments.

Items (i) to (ix) have been previously published and filed with the FSA and shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statements contained in a document which is deemed to be incorporated by reference herein shall be deemed to 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 be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Any information or documents incorporated by reference in the above listed documents do not form any part of this Prospectus unless expressly incorporated herein by reference. The remainder of the above listed documents are not incorporated by reference into this Prospectus and are not relevant for the purposes of this Prospectus. Items (i) to (viii) are incorporated by reference into this Prospectus for the purposes of Article 5 of the Directive 2003/71/EC (the "**Prospectus Directive**") and paragraph 11.1 of Annex IX of Commission Regulation 809/2004 (the "**PD Regulation**") and item (ix) is incorporated by reference into this Prospectus for the purposes of Article 5 of the Prospectus Directive and paragraph 12 of Annex IX of the PD Regulation.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Issuer at *www.friendslife.co.uk/investor/*. Except for the copies of such documents incorporated by reference available on the Issuer's website, the content of any website referred to in this Prospectus does not form part of this Prospectus.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE SUBORDINATED NOTES

The following overview refers to certain provisions of the terms and conditions of the Subordinated Notes and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Prospectus. Terms which are defined in "Terms and Conditions of the Subordinated Notes" below have the same meaning when used in this overview.

Issuer	*Friends Life Group plc*
Guarantor	*Friends Life Limited*
Trustee	*The Law Debenture Trust Corporation p.l.c.*
Issue	*US$575,000,000 7.875 per cent. Reset Perpetual Subordinated Notes.*
Redemption	*The Subordinated Notes have no fixed redemption date. The Issuer may redeem the Subordinated Notes in the circumstances described below under "Tax Law Change" and "Regulatory Event", or on 8 November 2018 or on any Interest Payment date thereafter at their principal amount together with any accrued but unpaid interest to (but excluding) the date of redemption and any Arrears of Interest, subject to satisfaction of the Issuer Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, and provided that the Issuer has complied with regulatory rules on notifications to, or consent from, (in either case, if and to the extent required) the FSA and that the Issuer is in continued compliance with Regulatory Capital Requirements (as defined herein) applicable to it.*
Interest	*The Subordinated Notes will bear interest from (and including) the Issue Date to (but excluding) 8 November 2018 (the "**First Reset Date**") at the rate of 7.875 per cent. per annum (being the rate equal to 1.047 per cent. per annum plus the Margin of 6.828 per cent. per annum), payable semi-annually in arrear on 8 May and 8 November of each year (each an "**Interest Payment Date**"). In respect of each successive six year period thereafter, the Subordinated Notes will bear interest at a rate equal to the Six Year US Dollar Mid Swap Rate as determined by the Calculation Agent, plus the Margin of 6.828 per cent. per annum. See further the section of this Prospectus entitled "Terms and Conditions of the Subordinated Notes".*
Interest Payment Dates	*Subject to satisfaction of the Issuer Solvency Condition, to no Regulatory Deficiency Interest Deferral Event having occurred and unless the Issuer exercises its option to defer payment of interest on the Subordinated Notes, payments of interest will be made semi-annually in arrear on 8 May and 8 November of each year starting on 8 May 2013.*
Additional Amounts	*If the withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature is required by law, the Issuer or the Guarantor (as the case may be) will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders or Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Subordinated Notes or Coupons, as the case may be, in the absence of the withholding or deduction ("**Additional Amounts**"), subject to some exceptions, as more particularly described in "Terms and Conditions of the Subordinated Notes".*
Guarantee	*The Subordinated Notes will be irrevocably guaranteed on a subordinated basis by the Guarantor. The obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor. The*

	rights and claims of the Noteholders and Couponholders against the Guarantor are subordinated in a winding-up of the Guarantor in accordance with Condition 3(c). Payments made pursuant to the Guarantee are subject to the satisfaction of the Guarantor Solvency Condition and the Guarantor may elect to defer any payment under the Guarantee in respect of interest on the Subordinated Notes. The obligations of the Guarantor to make payments in respect of interest or in relation to the redemption of the Subordinated Notes will be mandatorily deferred if a Guarantor Regulatory Deficiency Interest Deferral Event (in the case of interest) or a Guarantor Regulatory Deficiency Redemption Deferral Event (in the case of a redemption), as the case may be, has occurred and is continuing or would occur if such payment is made.
Subordination	*The Subordinated Notes constitute direct, unsecured, subordinated obligations of the Issuer, and rank pari passu and without any preference among themselves. The rights and claims of the Noteholders and Couponholders against the Issuer are subordinated in a winding-up of the Issuer in accordance with Condition 2(a). The obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor.*
Optional Deferral of Interest	*The Issuer may, subject to Condition 5(b), elect to defer any payment of interest on the Subordinated Notes which is otherwise scheduled to be made on any Discretionary Interest Payment Date. Subject to Conditions 2(b) and 5(b), the Issuer shall be obliged to pay interest accrued in an Interest Period which ends on an Interest Payment Date which is a Compulsory Interest Payment Date. See "Terms and Conditions of the Subordinated Notes – 5(a). Issuer Optional Deferral of Interest".*
Solvency Condition	*Except in a winding-up, all payments on the Subordinated Notes will be conditional upon the Issuer, and all payments under the Guarantee will be conditional upon the Guarantor, satisfying the Issuer Solvency Condition and the Guarantor Solvency Condition (as applicable) at the time of and immediately after any such payment and neither the Issuer nor the Guarantor (as the case may be) will make any payment and any such payment shall not be payable in respect of the Subordinated Notes or under the Guarantee and neither the Guarantor nor the Issuer, as applicable, may redeem any of the Subordinated Notes unless the Issuer or the Guarantor (as the case may be) satisfies the Issuer Solvency Condition or the Guarantor Solvency Condition (as the case may be) both at the time of and immediately after any such payment or redemption. See "Terms and Conditions of the Subordinated Notes — 2(b). Issuer Solvency Condition" and "Terms and Conditions of the Subordinated Notes — 3(e). Guarantor Solvency Condition".*
Regulatory Deficiency Interest Deferral Event	*Payments of interest on the Subordinated Notes by the Issuer will be mandatorily deferred on any Interest Payment Date if a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such Interest Payment Date. A Regulatory Deficiency Interest Deferral Event occurs if a Specified Regulatory Event has occurred and: (i) the Solvency Capital Requirement applicable to the Issuer, the Friends Life group or any insurance undertaking within the Friends Life group is 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 Subordinated Notes (on the basis that the Subordinated Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions) and the FSA has not waived the requirement to defer payment of interest under the Subordinated Notes; or (ii) the FSA has notified the Issuer in writing that it has determined in accordance with the Relevant Rules at such time that the Issuer must defer payment of interest in*

respect of the Subordinated Notes. A Specified Regulatory Event occurs if, on or after Solvency II Implementation, (i) the Subordinated Notes are not capable of counting; or (ii) less than 100 per cent. of the principal amount of the Subordinated Notes outstanding at such time is capable of counting (taking into account any transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate), as Tier 1 Capital for the purposes of the Issuer or the Group, whether on a solo, group or consolidated basis See "Terms and Conditions of the Subordinated Notes — 5(a). Issuer Deferral of Interest."

The obligations of the Guarantor under the Guarantee to make payments of Guaranteed Amounts in respect of interest on Subordinated Notes will be mandatorily deferred on any date on which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such date. See "Terms and Conditions of the Subordinated Notes — 5(c)(i). Guarantor Deferral of Interest."

Arrears of Interest

Any interest in respect of the Subordinated Notes not paid on an Interest Payment Date due to the occurrence of a Regulatory Deficiency Interest Deferral Event or a Guarantor Regulatory Deficiency Interest Deferral Event (as the case may be) or due to a failure to satisfy the Issuer Solvency Condition or the Guarantor Solvency Condition (as the case may be) will, so long as they remain unpaid, constitute Arrears of Interest. Arrears of Interest will become payable upon the earliest of the following dates:

(i) *(in the case of the Issuer) the next Interest Payment Date on which no Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such Interest Payment Date (taking into account for this purpose the payment of Arrears of Interest on such Interest Payment Date) and in respect of which the Issuer has not exercised its rights pursuant to Condition 5(a) and (in the case of the Guarantor) the next Interest Payment Date on which no Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made (taking into account for this purpose the payment of Arrears of Interest on such Interest Payment Date) and in respect of which the Guarantor has not exercised its rights pursuant to Condition 5(d);*

(ii) *in the case of the Issuer, the date on which an order is made or a resolution is passed for the winding-up of the Issuer or, in the case of the Guarantor, the date on which an order is made or a resolution is passed for the winding-up of the Guarantor, (in each case other than a solvent winding-up for the purpose of a reconstruction or amalgamation or substitution, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (ii) do not provide that the Subordinated Notes shall thereby become payable) or, in the case of the Issuer, the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend or, in the case of the Guarantor, the date on which any administrator of the Guarantor gives notice that it intends to declare and distribute a dividend; and*

(iii) *the date fixed for any redemption or purchase of the Subordinated Notes.*

No interest will accrue on Arrears of Interest.

Dividend and Capital Restrictions

Following any Interest Payment Date on which payment of interest in respect of the Subordinated Notes shall not have been paid as a result of the occurrence of a Regulatory Deficiency Interest Deferral Event, as a result of a breach of the Issuer Solvency Condition or as a result of the exercise by the Issuer of its option to defer such payment of interest, the Issuer shall not: (i) make any other payment on, and will procure that no dividend, distribution or other payment is declared or paid on, any Junior Securities or Pari Passu Securities, save where the Issuer is not able to defer, pass or eliminate a dividend or other distributions or any other payment in accordance with the terms and conditions of the Junior Securities or Pari Passu Securities; or (ii) purchase, repurchase, redeem, cancel or otherwise acquire any Junior Securities or Pari Passu Securities (with the exception of repurchases in connection with share option or share ownership schemes for management or employees of the Issuer or affiliates of the Issuer made in the ordinary course of business or save where the Issuer is not able to defer, pass or eliminate any other payment or any other obligation in respect of such purchase, repurchase, redemption, cancellation or other acquisition in accordance with the terms of the Junior Securities or Pari Passu Securities), in each case until the full amount of the relevant Arrears of Interest has been received by the Noteholders or the Trustee and no other payment of Arrears of Interest remains unsatisfied.

If payments of Guaranteed Amounts in respect of interest on the Subordinated Notes shall not have been paid as a result of the occurrence of a Guarantor Regulatory Deficiency Interest Deferral Event, as a result of a breach of the Guarantor Solvency Condition or as a result of the exercise by the Guarantor of its option to defer such payment of interest, then, the Guarantor shall not (i) make any other payment on, and will procure that no dividend, distribution or other payment is declared or paid on, any Guarantor Junior Securities or Guarantor Pari Passu Securities, save where the Guarantor is not able to defer, pass or eliminate a dividend or other distributions or any other payment in accordance with the terms and conditions of the Guarantor Junior Securities or Guarantor Pari Passu Securities; or (ii) purchase, repurchase, redeem, cancel or otherwise acquire any Guarantor Junior Securities or Guarantor Pari Passu Securities (with the exception of repurchases in connection with share option or share ownership schemes for management or employees of the Guarantor or affiliates of the Guarantor made in the ordinary course of business or save where the Guarantor is not able to defer, pass or eliminate any other payment or any other obligation in respect of such purchase, repurchase, redemption, cancellation or other acquisition in accordance with the terms of the Guarantor Junior Securities or Guarantor Pari Passu Securities), in each case until the full amount of the relevant Arrears of Interest has been received by the Noteholders or the Trustee and no other payment of Arrears of Interest remains unsatisfied.

See "Terms and Conditions of the Subordinated Notes — 5(c). Arrears of Interest" and "Terms and Conditions of the Subordinated Notes — 5(f). Arrears of Interest."

Tax Law Change

If:

(a) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published

interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions (in respect of securities similar to the Subordinated Notes and which are capable of constituting Tier 2 Capital) or which differs from any specific written confirmation given by a tax authority in respect of the Subordinated Notes, which change or amendment (x) becomes, or would become, effective on or after the Issue Date (the "Tax Law Change Date"), or (y) in the case of changes or proposed changes in law are enacted (or, in the case of proposed changes, are expected to be enacted) by a United Kingdom Act of Parliament or by Statutory Instrument, on or after the Tax Law Change Date (a "Tax Law Change"), in making any payments on the Subordinated Notes, the Issuer or the Guarantor has paid or will be required to pay Additional Amounts which cannot be avoided by taking measures reasonably available to it; or

(b) as a result of a Tax Law Change in respect of the Issuer's or the Guarantor's obligation to make any payment of interest on the next following Interest Payment Date (in the case of the Guarantor, if the Guarantor were required to make such payment), (x) the Issuer or the Guarantor, as the case may be, would not be entitled to claim a deduction for such interest in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; (y) the Issuer or the Guarantor, as the case may be would not be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes; or (z) the Issuer or the Guarantor, as the case may be, would otherwise suffer adverse tax consequences, and in each such case the Issuer or the Guarantor, as the case may be, cannot avoid the foregoing in connection with the Subordinated Notes by taking measures reasonably available to it,

the Issuer may, subject to Condition 6(b), the satisfaction of the Issuer Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, redeem all (but not some only) of the Subordinated Notes at their principal amount together with any interest accrued to (but excluding) the date of redemption and any Arrears of Interest, or substitute at any time, all (but not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes so that they become, Qualifying Tier 2 Securities, as more particularly described in the section entitled "Terms and Conditions of the Subordinated Notes — 6(d). Redemption, Substitution or Variation at the Option of the Issuer Due to Taxation".

Regulatory Event

Subject to, in respect of (i) below only, satisfaction of the Issuer Solvency Condition and no Regulatory Deficiency Redemption Deferral Event having occurred and (in respect of (i) and (ii) below) the Issuer having complied with regulatory rules on notifications to, or consent from, (in either case, if and to the extent required) the FSA and being in continued compliance with Regulatory Capital Requirements applicable to it, if at any time a Regulatory Event occurs and is continuing, the Issuer may (i) redeem all (but not some only) of the Subordinated Notes at any time at their principal amount together with any interest accrued to (but excluding) the date of redemption and any Arrears of Interest, or (ii) substitute at any time, all (but not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes so that they become, Qualifying Tier 2 Securities, all as more particularly described in

	"Terms and Conditions of the Subordinated Notes — 6(e). Redemption, Substitution or Variation at the Option of the Issuer due to a Regulatory Event". *A "Regulatory Event" is deemed to have occurred if as a result of any change to (or change to the interpretation by any court or authority entitled to do so of) the Insurance Groups Directive or its Relevant Rules; the implementation (or the interpretation by any court or authority entitled to do so) of Solvency II or its Relevant Rules; or any change to (or a change to the interpretation by any court or authority entitled to do so of) Solvency II or its Relevant Rules following their implementation: (a) the Subordinated Notes are no longer capable of counting; or (b) in the circumstances where such capability derives only from transitional or grandfathering provisions under the Insurance Groups Directive, Solvency II or the Relevant Rules, as appropriate, less than 100 per cent. of the principal amount of the Subordinated Notes outstanding at such time are capable of counting as either Tier 1 Capital or Tier 2 Capital for the purposes of the Issuer or the Group, whether on a solo, group or consolidated basis, except where such non qualification is only as a result of any applicable limitation on the amount of such capital (other than the limitation set out in (b) above), as more particularly described in the section entitled "Terms and Conditions of the Subordinated Notes".*
Form	*The Subordinated Notes are serially numbered and in bearer form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof up to and including US$399,000 each with Coupons attached on issue. No definitive Subordinated Notes will be issued with a denomination below US$200,000 or above US$399,000.*
Denomination	*The Subordinated Notes will be issued in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof up to and including US$399,000.*
Regulatory treatment	*As of the Issue Date, the Subordinated Notes are intended to qualify (but for any applicable limitations on the amount of such capital) as Upper Tier 2 Capital of the Issuer.*
Listing	*Application has been made for the Subordinated Notes to be admitted to the Official List of the United Kingdom Listing Authority and for the Subordinated Notes to be admitted to trading on the London Stock Exchange's Regulated Market.*
Ratings	*The Subordinated Notes are expected to be assigned ratings of BBB by S&P and BBB+ by Fitch. Each of S&P and Fitch is established in the European Union and registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.*
Governing Law	*The Subordinated Notes and the Trust Deed will be governed by, and construed in accordance with, English law.*

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus (including the documents incorporated by reference herein) prior to making any investment decision with respect to the Subordinated Notes. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer, the Guarantor or the Friends Life group, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Subordinated Notes. In addition, each of the risks highlighted below could adversely affect the trading price of the Subordinated Notes of investors and, as a result, investors could lose some or all of their investment. This section of the Prospectus describes all material risks that are known to the Issuer or the Guarantor as at the date of this Prospectus. This section of the Prospectus is not intended to be exhaustive and prospective holders of Subordinated Notes should read the detailed information set out elsewhere in this document prior to making any investment decision. Prospective investors should consider, among other things, the following:

RISKS RELATING TO THE ISSUER, THE GUARANTOR AND THE FRIENDS LIFE GROUP

Economic conditions, financial markets and systemic risks

A further deterioration in general economic and market conditions could have a material adverse effect on the Friends Life group's financial position, and the Friends Life group may be sensitive to financial and industry cycles

The financial position and performance of the Friends Life group are influenced by changes in the general economic and market conditions in the countries in which its businesses operate (particularly in the United Kingdom and countries in Europe and Asia), which are outside its control. As a consequence of severe dislocation of financial markets around the world and unprecedented levels of illiquidity in 2007 and 2008, a number of governments, including the UK government, the governments of other EU member states and the US government, were required to intervene in order to inject liquidity and capital into, and to stabilise, financial markets, and, in some cases, to prevent the failure of financial institutions. Global financial markets began to stabilise during 2009 with equity markets continuing to recover during 2010. Liquidity also saw further recovery in 2010 but remains restricted relative to pre-crisis levels. In 2011 the Eurozone sovereign debt crisis caused bond market liquidity to fall sharply, although liquidity enhancement operations by the European Central Bank partly offset some of the funding difficulties experienced by banks.

Events such as the provision of emergency loan packages for Cyprus, Greece, Ireland and Portugal and for Spanish banks; concern over the status of other sovereign credits, particularly Italy, France and Spain; downgrades of the credit ratings of the US and of Eurozone countries; and the imposition of voluntary haircuts of Greek sovereign debt on private sector creditors in a manner designed not to trigger credit default swaps has added to and exacerbated general economic uncertainty. Political risk has also risen, with France, Greece, Italy, the Netherlands, Portugal and Spain experiencing changes in government and, in the case of Greece, Italy and Portugal, directly caused by the imposition of austerity measures designed to ameliorate rising borrowing costs. These countries' commitment to austerity measures as a means of reducing their sovereign debt burden may weaken, especially as governments become more unstable, further exacerbating political uncertainty and delaying implementation of pre-agreed reforms. As a result of considerable continuing uncertainty about the strength and stability of economic recovery in EU member states, particularly those in the Eurozone, equity markets performed poorly in 2011 and Eurozone equity markets have continued to perform poorly in 2012.

Due to the ongoing economic concerns surrounding the Eurozone peripheral countries, the chances of one or more countries leaving the Euro has increased. The departure of one of the larger economies, notably Italy or Spain, could potentially lead to a break-up of the Eurozone. The possibility of such an event occurring continues to contribute to uncertainty, particularly in the market perception of various banks' financial strength. In addition, a number of members of the Eurozone, particularly Greece, Italy, Portugal and Spain, have high levels of public debt at a time of modest or negative GDP growth, resulting in a deterioration in sovereign credit quality for those countries (particularly in relation to debt servicing and refinancing) which, in turn, led to a loss of market confidence. Even if such countries remain in the Eurozone, the resulting recessionary environment may have an adverse effect on the Friends Life group's business carried out in, or with counterparties based in, such countries.

As a result of the above uncertainties and the risk of downturns in equity markets and asset values, as well as significant movements in interest rates or credit spreads, the results of operations of the Friends Life group may be subject to significant volatility, and there can be no assurance as to the effects of this volatility, particularly if it is prolonged, on

the financial position or results of operations of the Friends Life group. Effects may include: (i) a general reduction in business activity and market volumes which affect fees, commissions and margins from customer-driven transactions and revenues, such as premium income, from sales of insurance products; (ii) market downturns which are likely to reduce the volume and valuations of assets managed on behalf of clients, thereby reducing asset- and performance-based fees; (iii) reduced market liquidity, limiting trading and arbitrage opportunities and impeding a company's ability to manage risks, impacting both trading income and performance-based fees; (iv) a reduced value in assets a company holds for its own account as trading positions could continue to fall in value; (v) increased impairments and defaults on credit exposures and on trading and investment positions, which losses may be exacerbated by falling collateral values; (vi) increased collateral requirements under derivative and other financial instruments; (vii) increased costs of hedging against market risks such as equity or interest rate exposure; (viii) pressure by the insurance funds to reduce equity and/or debt investments or maintain additional capital in respect of such holdings; (ix) an increase in technical provisions and capital requirements in response to market-related stress tests; and (x) a requirement to hold a larger proportion of liquid assets in order to offset the impact of a reduction in market liquidity on a company's ability to meet payment obligations. A breakup of the Eurozone may, in particular, exacerbate effects (ii), (iii), (iv), (v), (vii), (viii) and (x).

The global financial crisis led to recessionary conditions in the UK, the US, the EU and other parts of the world. Any recovery is expected to be fragile, and would be threatened by factors external and internal to the UK. Internally, it may prove vulnerable to fiscal retrenchment as government budget deficits are reduced, and to interest rate rises as central banks attempt to normalise from prolonged historic lows. Externally, it may be vulnerable to a recession in the Eurozone. Renewed general deterioration in the UK or other major economies throughout the world, including, but not limited to, negative development in business and consumer confidence, unemployment trends, the state of the housing market, the commercial property sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, the liquidity of global financial markets and market interest rates, would reduce the level of demand for the products and services of the Friends Life group and of other Financial Services Businesses which the Issuer or the Guarantor might acquire and lead to lower realisations, increased write-downs, impairments of investments and negative fair value adjustments of assets, and materially and adversely impact the Friends Life group's operating results, financial condition and prospects.

In addition to general economic and market conditions, financial and industry cycles can also cause the results and value of the Friends Life group's Financial Services Businesses to fluctuate among periods, as well as on a long-term basis, in ways that may be unpredictable. Such cycles include insurance industry cycles; financial market cycles, including volatile movements in market prices for securities; and banking industry cycles. Other factors which impact the business and economic environment and businesses in the financial services sector include fluctuations in interest rates and exchange rates, consumer spending, business investment, the real estate market, the volatility and strength of the capital markets, catastrophic events, terrorism, and other acts of war or hostility, and the governmental and political developments relating to the foregoing, as well as social or political instability, diplomatic disputes and international conflicts.

Adverse capital and credit market conditions may negatively affect the Friends Life group's ability to meet its liquidity needs, as well as its access to and cost of capital

The capital and credit markets have been experiencing volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity for certain issuers. The Friends Life group needs liquidity to pay operating expenses, interest on debt and dividends on capital stock, as well as to replace certain maturing liabilities. Without sufficient liquidity, the Friends Life group would be forced to curtail operations and its business would suffer. The Friends Life group's principal sources of liquidity are insurance premiums, annuity consideration, deposit funds, cash flow from its investment portfolio and liquid assets (consisting mainly of cash or assets that are readily convertible into cash). Sources of liquidity in normal markets also include a variety of short-term and long-term instruments, including repurchase agreements, commercial paper, medium-term and long-term debt, junior subordinated debt securities, capital securities and stockholders' equity.

In the event available resources were not sufficient to satisfy the Friends Life group's business and operational needs, it might have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, the Friends Life group's credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of the Friends Life group's long-term or short-term

financial prospects if it were to incur large investment losses or if the level of business activity were to decreases due to a further or sustained market downturn. Similarly, access to funds may be impaired if regulatory authorities or rating agencies take negative actions against the Friends Life group. There can be no assurance that internal sources of liquidity will be sufficient and, in such case, that it would be able successfully to obtain the requisite financing on commercially reasonable terms, or at all.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit the Friends Life group's access to the capital it requires to operate its business, in particular its insurance operations. Such market conditions may limit the Friends Life group's ability to: replace maturing liabilities in a timely manner or at all; satisfy statutory capital requirements; generate fee income and market-related revenue to meet liquidity needs; and access the capital necessary to grow the Friends Life group's business. As such, the Friends Life group may be forced to delay raising capital, issue shorter-term securities than would be preferable, or bear an unattractive cost of capital which could decrease profitability and significantly reduce financial flexibility. The Friends Life group's results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

£500 million of commitments are currently available to the Issuer under a multicurrency revolving facilities agreement dated 24 June 2010. The final maturity date of the Facility is 24 June 2013, however the Final Maturity Date may be extended for two further 12-month periods pursuant to two extension options. The Friends Life group may (subject to FSA approval) seek to secure additional borrowings to finance future acquisitions and/or refinancing of acquired businesses. There can be no guarantee that the Issuer, the Guarantor or any member of the Friends Life group would be able to refinance existing debt on competitive terms or at all or to secure such additional borrowings in the future.

The Friends Life group and any other Financial Services Businesses that the Issuer or the Guarantor may acquire may have significant exposure to counterparty risk and could be negatively affected by the financial soundness of counterparties and/or the financial soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties

The Issuer is subject to specific counterparty risks, including a risk of financial loss arising from one or more of the following: (i) a deposit institution's default or the deterioration of the deposit institution's financial position, and exposure to credit risk on balances deposited with such institutions (whether banks or otherwise) in the form of cash, certificates of deposit and money market instruments; (ii) a debtor's inability to repay all or part of its loan obligations to the Friends Life group; the most material of such exposures being loans to IFAs as part of strategic investments, stock lending arrangements, other strategic loans, loans to former appointed representatives, agency debt, policyholder debt and rental income due; and (iii) the failure or unwillingness of economic agents in a sovereign country, including the government, to fulfil their obligations due to a ratings downgrade, a shortage of foreign exchange, currency inconvertibility or other reasons. The Friends Life group currently has a material exposure to Sterling gilts issued by the UK government, and is therefore subject to the risk of sovereign debt credit deterioration of the UK government. The occurrence of any of these described risks could have a material adverse impact on the Friends Life group's financial condition.

The interdependence of financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt securities markets or clearance and settlement systems in the markets. This could cause severe market decline or volatility. Such a failure could also lead to a chain of defaults by counterparties that could materially adversely affect the Friends Life group. This risk, known as “systemic risk”, could adversely impact future product sales as a result of reduced confidence in the financial services industry. It could also reduce results because of market decline and write-downs of assets and claims on third parties. The Friends Life group believes that, despite increased focus by regulators around the world with respect to systemic risk, this risk remains part of the financial system in which the Friends Life group operates and dislocations caused by the interdependency of financial market participants could have a material adverse effect on the business, results of operations and financial condition of the Friends Life group.

In addition, the Friends Life group faces a risk of financial loss arising from the failure or substantial delay of an expected transfer settlement due to a third-party default or breach of settlement obligations. The Friends Life group is exposed to settlement risk in connection with bank transfers, including foreign exchange transactions; the purchase or sale of investments; the purchase or sale of property; the purchase, sale or expiry of exchange-traded derivatives or the transfer of periodic payments under such contracts; and the settlement of derivative contracts resulting in unhedged

exposures and losses on uncollateralised positions. Any such failures or delays could have a material adverse impact on the Friends Life group's financial position.

Fluctuations in investment markets may adversely affect reported financial results and capital requirements of the Friends Life group's insurance businesses

The Friends Life group has substantial exposure to fixed-interest securities, equity securities, property investments and other asset classes via its constituent life insurance portfolios. Friends Life also has exposure to derivatives contracts including: interest rate swaps, equity put options, currency forwards, inflation swaps, interest rate swaptions and equity futures that it uses for hedging or efficient portfolio management. Investment risk is often shared in whole or in part with policyholders; however, fluctuations in relevant investment markets may, directly or indirectly, adversely affect the reported financial results and the capital requirements of the insurance businesses. Substantial declines in the value of investments may cause additional shareholder capital to be required which may or may not be available. The extent to which the Friends Life group is exposed to the risk of loss as a result of fluctuations in relevant investment markets depends to an extent on the mix of assets held by the Friends Life group to back the liabilities of the insurance businesses and on the nature of those liabilities and there can be no assurance that the assets available will be sufficient to sustain such market fluctuations.

Interest rate volatility and credit spread volatility can adversely affect the insurance and asset management businesses of the Friends Life group

Interest rates and credit spreads are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Friends Life group. Interest rate and credit spread volatility can adversely affect the businesses in the insurance, asset management and banking sectors by reducing the returns earned on fixed interest investments and reducing the market values of, and the amounts of capital gains or losses taken on, fixed interest securities held by such businesses.

In particular, insurance businesses, including those in the Friends Life group, can be adversely affected by sustained low interest rates as well as certain interest rate fluctuations. Life assurance businesses invest in a variety of investments which typically include bonds. In times of low interest rates, such as those prevailing as of the date hereof, bond yields typically decrease. This can mean that when bonds mature, the sums realised are reinvested into bonds with lower yields, which, in turn, decrease investment returns. The portfolio yield may therefore become nearer to the guaranteed returns of any life policies written. Policyholders whose payouts are reduced may see less value in investing in life insurance, which can be longer in duration and more opaque than other investment products, thereby reducing demand for new products or increasing lapses on existing products. In addition, the profitability of spread-based insurance products depends largely on the ability to manage interest rate spreads and the credit and other risks inherent in the investment portfolio of such businesses. Liabilities in respect of certain products, notably annuities, vary as interest rates fluctuate and so life insurance companies often attempt to match the liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the liabilities. However, to the extent that such asset liability matching is not practicable, successful or fully achieved, there may be fluctuations in the difference between assets and liabilities as interest rates change. In addition, guarantees included in certain insurance products, for example, those products guaranteeing minimum levels of return or annuity rates at maturity, may become more expensive during periods of low interest rates. Sustained low interest rates or interest rate fluctuations could therefore have a material adverse effect on the business, results of operations and/or financial condition of the Friends Life group.

While the Issuer employs hedging strategies to seek to manage the impact of interest rate volatility or sustained low interest rates on the Friends Life group, there can be no assurance that such arrangements will be entered into or available at all times when the Friends Life group wishes to use them or that they will be sufficient to cover the risk or be available at pricing which is acceptable. The Friends Life group will also be exposed to the credit risk of the relevant counterparty with respect to relevant payments under derivative instruments.

Foreign investment and exchange risks may adversely affect the Friends Life group's operating results

The Issuer's functional and presentational currency is Sterling. As a result, the Issuer's consolidated financial statements state the Issuer's assets in Sterling. The Friends Life group has foreign operations and investments that are not denominated in Sterling which may expose it to multiple currencies. When consolidating businesses that have functional currencies other than Sterling, the Issuer is required to translate, among other things, the balance sheet and

operational results of such businesses into Sterling. Due to the foregoing, changes in exchange rates between Sterling and other currencies could lead to significant changes in the Issuer's reported financial results from period to period. Among the factors that may affect currency values are trade balances, levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Although the Issuer and the Guarantor may seek to manage their foreign exchange exposure, there can be no assurance that such arrangements will be entered into or available at all times when the Issuer or the Guarantor (as applicable) wishes to use them or that they will be sufficient or successful in covering the relevant risk.

If the businesses of the Friends Life group do not perform well, it may be necessary to recognise an impairment of goodwill or other long-lived assets, which could adversely affect the results of operations or financial condition of the Friends Life group

Currently, the Friends Life group recognises a minimal level of goodwill in its statement of financial position. However, through its history of acquisitions, it does have a considerable amount of other long-term intangible assets, in particular Acquired Value In Force ("**AVIF**") assets, and it may have additional AVIF if further acquisitions are made in the future.

The Friends Life group may be required to record future impairments of AVIF to the extent the fair value of any of its reporting segments is less than its carrying value. As of 30 June 2012, the fair values of the Friends Life group's UK life insurance, International and Lombard reporting segments exceeded their carrying values. Estimates of fair value are based on assumptions about future cash flows and growth rates of each reporting segment, discount rates applied to these cash flows and current market estimates of value. Based on the uncertainty of the assumptions used to estimate AVIF recoverability, future reductions in the Friends Life group's expected cash flows or other development could give rise to a material non-cash impairment charge of AVIF. The Friends Life group may be more susceptible to impairments than other companies due to the various acquisitions undertaken in its history. The impairment of AVIF could have a material adverse effect on the Friends Life group's results of operations and financial condition.

The Acquisitions

Following the AXA Acquisition and the BHA Acquisition, the Friends Life group comprises the AXA UK Life Business and BHA, in addition to the former Friends Provident business. The following risks arise from the Acquisitions and similar risks may arise from additional acquisitions that the Issuer or the Guarantor may undertake in the future.

The Friends Life group will encounter numerous separation and integration challenges as a consequence of the AXA Acquisition

The Friends Life group has faced certain separation and integration challenges as a consequence of the acquisition of the AXA UK Life Business. The AXA Acquisition has involved a significant programme of work to separate the acquired businesses and related IT and other systems from those retained by the sellers and to integrate them with other processes and systems. Further challenges arose due to the inter-dependency of different work programmes needing to be undertaken in a relatively short time frame. Delays or unanticipated difficulties in effecting full separation and integration could result in the Friends Life group having to bear additional or unexpected costs which in turn could materially and adversely affect the Friends Life group's business.

The increase in scale of the Friends Life group and the possible impact of the separation and subsequent integration of the AXA UK Life Business may expose the Friends Life group's business to additional operational risks

The increase in scale of the Friends Life group as a result of the Acquisitions, particularly the AXA Acquisition, and the separation of the AXA UK Life Business from the AXA UK Retained Business and its subsequent integration into, and potential incompatibility with, Friends Life's businesses and systems, expose the business of the Friends Life group to increased operational risks, including risks relating to business continuity, IT systems integrity, customer service and data security, risk management and internal control or compliance. The occurrence of any or all of the above risks, as a result of human error, misconduct or fraud or as a result of the difficulty and complexity of the integration process, could result in material reputational damage, regulatory action, loss of customers, increased future capital requirements and a consequent material adverse effect on the Friends Life group's business.

Following the Acquisitions, the success of the Friends Life group will be dependent on the continued performance of outsourcing arrangements by third party service providers

The heritage AXA UK Life Business is dependent upon Capita (with whom the AXA UK Life Business entered into a contract for customer services, policy administration, claims activity and related IT support) for the continued performance of key customer services, policy administration, claims activity and related IT support. Friends Life has recently entered into an IT and business processing outsourcing agreement with Diligenta Limited, for services which commenced on 1 March 2012 (for more information, see the section entitled "*General Information - Material Contracts*" on pages 107 to 109 of this Prospectus). Any service failures, defaults or failure to meet established performance benchmarks by suppliers could result in operational difficulties for the Friends Life group. Further, as a result of the AXA Acquisition, some back-office and support services will be provided to the Friends Life group by the AXA UK Retained Business (being the business of AXA UK plc and its subsidiaries and subsidiary undertakings not purchased by the Issuer) for a transitional period. Therefore, during this transitional period, the Friends Life group will be reliant in part on the continued performance of the AXA UK Retained Business in relation to their obligations under the Transitional Services Agreement between AXA UK plc and the Issuer. Should any third party service providers breach their obligations under such agreements or similar agreements entered into by the Friends Life group in the future, this could result in material reputational damage, regulatory intervention or adverse capital requirements and the Friends Life group's financial condition and operating results could be materially adversely affected. See also *"Changes in taxation law may impact the Friends Life group and may impact upon the decisions of policyholders and potential policyholders"*.

Certain companies acquired by the Friends Life group could be required to provide financial support to defined benefit pension schemes with which they have had a connection in the past

As a result of the Acquisitions, the Issuer acquired a number of companies which were formerly participating employers in the AXA defined benefit pension schemes (including the FLWL defined benefit scheme) and BHA which was formerly a participating employer in the Bupa Group defined benefit pension scheme, or which were "associated" or "connected" with such employers.

Pursuant to the Pensions Act 2004, the UK Pensions Regulator is, in certain circumstances, empowered to impose contribution notices and financial support directions on companies which participate in defined benefit pension schemes, and on entities which are "associated" or "connected" with these companies. Notwithstanding that the companies in the AXA UK Life Business and BHA are no longer members of the AXA UK Life and Savings Business and the Bupa Group, respectively, there may still be a risk that the UK Pensions Regulator could, in certain circumstances, impose a contribution notice or financial support direction on these companies for up to six years after the date of their becoming part of the Friends Life group. Whilst these liabilities are the subject of indemnities given to the Issuer by AXA UK plc and the Bupa Group, respectively, a payment under such indemnities might not be available in whole or in part when called for or payment under such indemnity may be subject to delay. The unavailability or insufficiency of, or the delay in, payment under such indemnities could have a material and adverse effect on the financial condition of the Friends Life group.

Friends Life Services Limited is required to pay an "exit debt" as a result of its withdrawal from the AXA defined benefit pension schemes, and the indemnity from AXA UK plc covering these amounts might not be available when called for

Pursuant to the AXA Acquisition, the Issuer acquired Friends Life Services Limited, which was formerly a participating employer in the AXA defined benefit pension schemes. As a result of its withdrawal from those schemes, this company is liable for a "Section 75 debt" or "exit debt" in respect of its participation in the defined benefit schemes. The exit debt payable by Friends Life Services Limited as a result of ceasing to participate in the AXA Group pension scheme is the subject of an agreement with the trustees of that scheme under which its exit debt has been apportioned to AXA UK plc, an entity retained within the AXA Group. Liabilities of Friends Life Services Limited under section 75 of the Pension Act 2004 and the apportionment arrangement agreed with the trustees are the subject of an indemnity given to the Issuer by AXA in the Share Purchase Agreement. The indemnity also covers liabilities which any other company acquired as part of the AXA Acquisition may have to the AXA defined benefit schemes. However, a payment under such indemnities might not be available in whole or in part when called for or payment under such indemnity may be subject to delay. The unavailability or insufficiency of, or the delay in, payment under such indemnities could have a material and adverse effect on the financial condition of the Friends Life group.

Strategic risks

The implementation of the Friends Life group's strategy may not proceed successfully

The strategy of the Friends Life group is to optimise the business models of the acquired businesses which involves the development of a sustainable business model based on profitable products, an efficient cost base and strong cash generation and the delivery of value through financial synergies restructuring.

The Friends Life group's strategy, which may be revised from time to time, may involve the Friends Life group carrying on business in new markets or developing capabilities to carry out new business activities, or ceasing to do so. The implementation of changed strategies or new strategies could entail higher levels of risk or could adversely affect the results of operations and the financial condition of the Friends Life group.

On 15 August 2012 and 19 October 2012, Resolution Limited, the ultimate parent company of the Issuer, announced proposed changes to the current governance structure of the RSL Group. The proposed changes include streamlining membership of the boards of Directors of the Issuer and of Resolution Limited and terminating the operating agreement between Resolution Operations LLP and Resolution Limited. The Issuer expects that the proposed changes will be implemented by 10 December 2013, subject to the completion of applicable legal and regulatory processes. The Issuer does not expect that the implementation of the proposed changes will have a material adverse effect on the operations or financial condition of the Friends Life group.

The Friends Life group may be unable to execute, or may encounter difficulties or delays in successfully executing, its business and strategic goals which are subject to the risks set out herein and other factors that are currently unforeseen and which may be beyond the control of the Friends Life group. Failure to achieve any or all of the Friends Life group's strategic goals, or the encounter of undue delay or unforeseen costs in implementing such goals, could adversely affect the results of operations and the financial condition of the Friends Life group, as well as its reputation and standing in the marketplace.

The market for new life assurance and pensions business is highly competitive and competition is likely to intensify

The UK life assurance and pensions markets are highly competitive and competition is likely to intensify. The market includes a number of product providers with operations that are either comparable to or larger than the Friends Life group's operations in their size, scope and brand recognition. Many of these competitors offer similar products and compete to distribute products through intermediaries.

The principal competitive factors in the sale of life assurance and pensions products are, depending on the particular product: product price, flexibility and features, innovation of product design, commission structure, marketing and distribution arrangements, brand and name recognition, reputation, financial strength ratings, net investment return after charges, including the level of annual and final bonuses declared on WP products, and the quality of the service furnished to the customer (directly and via independent intermediaries such as IFAs and EBCs) before and after a contract is executed.

If the Friends Life group is unable, or is perceived to be unable, to compete as to one or more of these factors as effectively and successfully as its competitors, or if its competitors are more successful or are perceived to be more successful in competing effectively as to one or more of these factors, the Friends Life group's competitive position may be materially adversely affected which, as a result, could have a material adverse effect on the Friends Life group's business, results of operations or financial condition.

In certain non-UK markets, the Friends Life group faces intense competition from local and international financial institutions, which may be more established in these markets and may have other competitive advantages, such as greater size and breadth, which may limit the Friends Life group's ability to be successful in these markets. In addition, local laws and regulations may be tailored to domestic providers, which may pose additional challenges to the Friends Life group.

A failure to compete effectively might have an adverse impact on the financial condition of the Friends Life group.

The Friends Life group's Life and Pensions Businesses are dependent on distributor firms for the sale of new business

Much of the Life and Pensions Businesses' new business is derived from independent distributor firms over whom the Friends Life group has no direct influence. Effective distribution is therefore dependent on meeting a number of competitive challenges.

In the UK, the FSA is implementing the Retail Distribution Review initiative (the "**RDR**"); the main body of which is planned to come into effect on 31 December 2012. However, there are certain limited elements of the overall RDR which the FSA does not intend to implement until after 31 December 2012, for example, the elements relating to restrictions on charges made by platforms to product providers. The FSA has said that it intends to look at these elements in greater detail but is yet to propose a timeframe for such an analysis. The FSA (or its successor, the Financial Conduct Authority) intends to monitor trends throughout the post-implementation period and to conduct a post-implementation review of the RDR, which will measure 'short-term indicators', to determine whether the RDR proposals have been properly implemented into the market (at a date no earlier than 31 December 2014) and 'longer-term indicators', to determine whether the expected benefits of RDR have been realised (considered unlikely to be measured before 2020, although it is possible that the 'longer-term indicators' may also be measured at the same time as the 'short-term indicators'). Implementation of the new rules is expected to have a significant impact on the investment advisory industry with increased direct compliance costs being incurred particularly during the transitional period, as firms adapt their business models to comply with the new adviser competence and advisor charging regime. These costs are likely to be incurred by any distributor firms or associated businesses owned by the Friends Life group and also in respect of the insurance businesses owned by the Friends Life group by virtue of their reliance upon third-party distributors for the distribution of insurance products.

The European Commission (the "**Commission**") is currently in the process of reviewing the Insurance Mediation Directive 2002/92/EC (the "**IMD**"). Changes to the IMD regime, when finalised in due course and subsequently implemented at national level, should have a similar impact across Europe to that which is expected to be realised in the UK following implementation of the FSA's RDR initiative. However, as the review process for the IMD is not complete, it is also possible that any revisions to the IMD may be inconsistent with the rules implementing the RDR, resulting in further changes being required to the regulatory framework in the UK. This means that changes to the IMD could result in further increased compliance costs or distribution inefficiencies being borne by distributor firms and/or insurance businesses (including those owned by the Friends Life group). The IMD review was launched in January 2010. In April 2011, the European Commission published a summary of the responses it had received to a consultation paper it had issued on the revision of the IMD. A final report on the impact of the revision of the IMD was published on 25 November 2011.

Following publication of a provisional version of its Insurance Mediation Directive 2 ("**IMD2**") legislative proposal on 3 July 2012, the European Commission published the final version of IMD2 on 9 July 2012. The legislative proposal has been passed to the European Parliament and the Council of the European Union for their consideration under the co-decision procedure. The European Commission explained that IMD2 is designed to improve the regulation of the retail insurance market and the proposed directive aims to ensure a level playing field between all participants involved in the sale of insurance products, and to strengthen policyholder protection. IMD2 will be a minimum harmonisation directive. However, the minimum standards of the IMD will be raised significantly.

It is expected that the European Parliament and the European Council are likely to adopt IMD2 during 2013. Work on subsequent technical measures to give effect to a number of IMD2 provisions would start soon after that and the new regime is most likely to enter into force in 2015.

Accordingly, there is a risk that the measures finally adopted could be adverse for the Friends Life group and that changes to the existing regime may, in particular, have an operational, cost or other negative impact on the Friends Life group and their distribution arrangements.

The European Commission has been working on an initiative in relation to packaged retail investment products ("**PRIPs**") with the aim of harmonising pre-contractual disclosures and selling practices for such products. The consultation on legislative steps for the PRIPs closed on 31 January 2011.

Following the publication of a provisional version on 3 July 2012, the European Commission published the final version of its proposal for a regulation for a new key information document ("**KID**") to be provided to retail customers

in relation to PRIPs on 9 July 2012. The proposed regulation will apply to the manufacturing and selling of PRIPs. The investment product manufacturer will be responsible for preparing the KID and, while product manufacturers may delegate the preparation of part or the whole of the KID to third parties, such as under a collaboration with distributors, the product manufacturer remains ultimately responsible for the document.

The proposal introduces the principle that all KIDs should have a standardised "look and feel" and contents designed to keep them focused on key information presented in a common way so as to promote comparability of information and its comprehension by retail investors. The person selling the product to retail investors (whether a distributor or the product manufacturer in the case of direct sales) must provide the KID to the potential investor in good time before a sale is transacted.

The legislative proposals for PRIPs are expected to be introduced through the revisions of the IMD2 and the Markets in Financial Instruments Directive ("**MiFID**") (following the ongoing review of each). The European Commission's proposal will now go to the European Parliament and the European Council for their consideration under the co-decision procedure. Once they reach agreement, the European Commission will carry out detailed work on the implementing measures. The full proposal is currently expected to be in place by the end of 2014.

Such proposals are expected to have an impact on how PRIPs are manufactured and sold. For example, there are likely to be substantial costs associated with producing the required disclosure documents and it is clear that the responsibility (and therefore the cost) of doing so will fall exclusively on the product manufacturer. Additionally, respondents to the European Commission's consultation on legislative steps for the PRIPs initiative have expressed a concern that an overly rigid regime would lead to a decrease in the variety of channels through which retail investors can come to acquire or enter into PRIPs. Forcing distribution channels into an inappropriate regulatory framework would also pose a risk to positive innovation in the future. The PRIPs proposal may, accordingly, result in an operational, cost or other negative impact on the Life and Pensions Businesses and their distribution arrangements.

There is a risk that the adoption of rules implementing the RDR, any new rules required in due course to implement the revised IMD and any new rules relating to PRIPs will lead to a decline in the number and/or size of retail distribution firms. Amongst other things, this is because financial advisors may decide to consolidate or to leave the sector in response to the anticipated increased compliance costs that may be realised and the higher professional standards envisaged by the RDR.

If a reduction in the capacity of the intermediary distribution sector does occur, this may result in fewer opportunities for the Friends Life group's products to be distributed by intermediary firms, which could have a material adverse effect on the Friends Life group's business and results.

The European Commission's legislative proposal for revisions to the Markets in Financial Instruments Directive ("**MiFID II**") was published on 20 October 2011. The indicative date for the European Parliament's plenary session to consider the MiFID II legislative proposal is 22 to 23 October 2012 (although adoption of MiFID II is not expected until 2015 at the earliest). The MiFID II proposals for selling practices in relation to non-insurance PRIPs suggested restrictions be imposed on the payment of commission to advisers (such restrictions being similar in nature to those proposed by the RDR). As the PRIPs regime is intended to harmonise the legislative framework for the distribution of all PRIPs, it is likely that similar restrictions on the payment of commissions will be proposed in due course to apply also to insurance-based PRIPs. The final position in respect of the PRIPs proposals remains somewhat unclear and it remains to be seen whether the requirements relating to the pre-contractual disclosure and selling practices for PRIPs will go further than the reforms proposed under the RDR. Such proposals are, however, expected to have an impact on how PRIPs are manufactured and sold. For example, there are likely to be substantial costs associated with producing the required disclosure documents and it is currently unclear whether the responsibility (and therefore the cost) of doing so will fall exclusively on the product manufacturer or on the distributors. Additionally, respondents to the European Commission's consultation on legislative steps for the PRIPs initiative have expressed a concern that an overly rigid regime would lead to a decrease in the variety of channels through which retail investors can come to acquire or enter into PRIPs. Forcing distribution channels into an inappropriate regulatory framework would also pose a risk to positive innovation in the future. The PRIPs proposal may, accordingly, result in an operational, cost or other negative impact on the Life and Pensions Businesses and their distribution arrangements.

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The Friends Life group intends to operate and expand a limited number of businesses in a limited number of sectors and this will concentrate risk

The Friends Life group expects that its business risk will from time to time be largely or wholly concentrated in relatively few businesses, all of which operate in the financial services industry. In particular, the Friends Life group's business risk is currently materially concentrated in the UK life assurance and pensions markets. Accordingly, the risks facing the Friends Life group may be greater than that of an entity which operates in a broader range of businesses and/or sectors and as a result there may be an increased likelihood that, if such risks materialise, they will have a material adverse effect on the business and/or financial condition of the Friends Life group.

Insurance risks

The success of the long-term insurance business within the Life and Pensions Businesses depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of the relevant claim

The success of any long-term insurance business within the Life and Pensions Businesses depends to a significant extent on the value of claims paid in the future relative to the assets accumulated to the date of claim and/or the technical provisions held in respect of the relevant claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs. However, in the early years for some products it is necessary to set aside amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions with regard to the development of interest rates, mortality or morbidity rates, persistency rates (being the extent to which policies remain in force and are not for any reason surrendered or transferred prior to maturity), expected rates of return on assets held to match such liabilities and future levels of costs and expenses (including taxation). These assumptions or the actuarial models employed may turn out to be incorrect and/or the value of claim costs may otherwise exceed that predicted in the actuarial models, leading to a shortfall or material difference in the assets available to cover the claims costs and the business, results of operations and/or financial condition of the Friends Life group could be materially adversely affected.

The Friends Life group also has liabilities under other products that are sensitive to mortality/longevity and/or morbidity rates. Income protection and other products are sensitive to future morbidity rates, in particular, the risk that more policyholders than anticipated will suffer from long-term health impairments and the risk, in the case of income protection or waiver of premium benefits, that those who are eligible to make a claim do so for longer than anticipated (and therefore longer than was reflected in the price of the policies). Improvements in medical treatments that prolong life without restoring the ability to work could lead to the crystallisation of these risks. In addition, annuity liabilities will increase as the longevity of the insured population increases.

In this context, it is necessary for the boards of directors of relevant companies to make decisions, based on actuarial advice, which ensure an appropriate accrual of assets and liabilities relative to one another. These decisions include the allocation of investments among equity, fixed income, property, other asset classes, the setting of policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms and any applicable market value adjustments. There is a risk that policyholders may claim that their interests have been adversely affected, or they have otherwise been treated unfairly, by such decisions. These claims may give rise to regulatory or reputational consequences (including sanctions) or compensation obligations for the Friends Life group, which in turn may have a material adverse effect on the Friends Life group's business, results of operations or financial condition. In addition, the ability of boards of directors to take such decisions may be constrained by past practice and policyholders' expectations as set out in the principles and practices of financial management applicable to WP funds within the Friends Life group.

Adverse experience compared with the assumptions used in pricing products, establishing provisions and reporting business results could have a material adverse effect on the financial position of the Friends Life group, and changes to such assumptions may lead to changes in the level of capital required to be maintained

The Friends Life group's financial results depend to a significant extent on the accuracy of the assumptions and models used at the time a particular policy is underwritten, for purposes of establishing the prices of products and the amount of provisions for future policy benefits and claims. The assumptions employed are estimates based on historical data and statistical projections of the expected future values of settlement and administration liabilities and are therefore applied to arrive at quantifications of some of the risk exposures of the Friends Life group. The actual amounts payable by the Friends Life group to satisfy their liabilities may vary from the estimated amounts, particularly if the amounts are payable well into the future.

Pricing of certain life products (such as pension contracts and immediate annuities) is based on assumptions regarding investment return and, if actual investment performance is lower than the underlying assumptions, the Friends Life group's profitability would be negatively affected. In respect of protection products, if actual claims experience is less favourable than the underlying assumptions (due to, for instance, unexpected claims, or higher than anticipated frequency or size of claims), or if it is necessary to increase provisions in anticipation of a higher number or value of future claims, it may be necessary to increase prices for future insurance policies and to set aside additional capital and provisions for the existing policies. Such adverse developments could have a material adverse effect on the financial position of the Friends Life group.

Lapse risk, which is the risk of policy lapse or withdrawal, at greater than expected rates, is another important variable as premature lapse can result in failure to fully recover the up-front expenses incurred in selling a product, which may in turn force the Friends Life group to sell assets at depressed prices and lead to the loss of ongoing investment management charges. Similar risks exist in respect of actual (as against expected) take up of options by policy holders. Factors that cause lapse, or option take up, rates to vary over time include changes in investment performance of the assets underlying the contract where appropriate, regulatory or tax changes that make alternative products more attractive, customer perceptions of the insurance industry in general and the Friends Life group in particular, and the general economic environment (with higher lapse rates expected in recessionary times).

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are deferred and recorded as assets on the Friends Life group's balance sheet and are amortised into income over time. If the assumptions relating to the future profitability of these policies (such as assumptions relating to future claims, investment income and expenses) are not realised, these costs could be amortised over a shorter period than anticipated or written off entirely if deemed unrecoverable. The accelerated amortisation or write-off of amounts in the balance sheet could have a material adverse effect on the Friends Life group's results.

Changes in assumptions may lead to changes in the level of capital required to be maintained. In the event that the capital requirements of the Friends Life group increase, the amount of any excess capital available for other business purposes will decrease. To the extent that actual claims experience is less favourable than the underlying assumptions, or it is necessary to increase provisions in anticipation of a higher rate of future claims, the amount of additional capital required (and therefore the amount of capital which can be released from the businesses and the ability of the Issuer to manage the Friends Life group in an efficient manner) may all be materially adversely affected. If the assumptions underlying the reserving basis are shown to be incorrect, this may have an adverse effect on the profitability of the relevant business.

Risk management methods of the Friends Life group may leave them exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

The Friends Life group has in place risk management policies, procedures and assessment methods to identify, assess and control risks to avoid or limit potential losses or liabilities. However, such policies, procedures and assessment methods may not be fully effective in identifying and mitigating the risk exposure of such businesses in all market environments or against all types of risk. As witnessed in recent periods, financial services companies have not been able to prevent losses arising from extreme or sudden market dislocations that were not anticipated by such companies' risk measures and systems or which were more extreme than anticipated and which affect sizeable inventory positions and therefore lead to serious losses. Moreover, loss and concentration stress tests and the back data from which risk was aggregated to identify potentially highly correlated exposures proved, and may in the future prove, to be inadequate. Unanticipated or incorrectly quantified risk exposures and/or inadequate or incorrect responses to these risk exposures

could result in a material adverse effect on the Friends Life group's business, results of operations and/or financial condition, as it will affect income derived from its underwriting and the profit commission receivable.

The Friends Life group's claims reserves in relation to some of its pure protection business may be inadequate to cover its actual liability for losses and as a result the Friends Life group's business, results of operations or financial condition could be adversely affected

Months and sometimes years may elapse between the occurrence of an insured event, the reporting of a claim to the Friends Life group and the payment of the claim. The Friends Life group will record a liability for estimates of total claims that will be paid for events reported to it and for events that have occurred but have not yet been reported, which will be referred to as "claims reserves" or "case reserves".

These reserves will be estimates based on historical data and statistical projections of what the Board believes the settlement and administration of claims will cost taking into consideration facts and circumstances then known to it. Actual claims, however, may vary significantly from the Friends Life group's estimates. Because of the uncertainties that surround estimated claims reserves, the Friends Life group cannot be certain that its reserves will be adequate to fully cover its actual claims. If the Friends Life group's reserves for unpaid claims are less than actual losses, it will be required to increase its reserves with a corresponding reduction in its net income in the period in which the deficiency is identified. Future claims substantially in excess of the Friends Life group's reserves for unpaid claims could substantially harm its business, results of operations and financial condition.

Liquidity and refinancing risk

The Friends Life group may be exposed to liquidity risk

Liquidity risk is the risk that an entity, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations when they fall due, or can secure them only at excessive cost. The Friends Life group faces three key types of liquidity risk:

First, funds managed for the benefit of shareholders, including shareholders' interests in long-term funds, may become illiquid (that is, the assets in which the funds are invested may become difficult or impossible to realise in a timely fashion or at acceptable valuations). The Friends Life group is exposed to shareholder liquidity risk in a number of key areas including the ability to support the liquidity requirements arising from new business, the capacity to maintain dividend payments, loan repayments and interest, the ability to cope with the liquidity implications of strategic initiatives, such as merger and acquisition activity, the capacity to provide financial support across the Friends Life group, and the ability to fund its day-to-day cash requirements.

Second, funds managed for the benefit of policyholders may become illiquid. Policyholder liquidity risk could arise from a number of areas including a short-term mismatch between cash flow assets and cash flow requirements of liabilities, having to sell assets to meet liabilities during stressed market conditions such as those that have been experienced recently, investments in illiquid assets such as property and private placement debt, higher than expected levels of lapses/surrenders caused by economic shock, adverse reputational issues or other events, higher than expected payments of claims on insurance contracts, and the implementation of temporary restrictions for the withdrawal of funds, as recently applied by extending notice periods of switches and withdrawals from property funds.

Third, requirements to post collateral or make payments related to reductions in the market value of specified assets may adversely affect the Friends Life group's liquidity and expose the Friends Life group to counter-party risk. Certain transactions entered into by Friends Life group companies will require the company concerned to post collateral. The amount of collateral required might, under certain circumstances, adversely affect the Friends Life group's liquidity.

The materialisation of any such liquidity risk could have a material adverse effect on the results of operations and/or financial condition of the Friends Life group.

Reinsurance

The Friends Life group may not be able adequately to transfer its insurance risk exposures

From time to time, individual businesses within the Friends Life group seek to transfer insurance risk exposures or certain other risk to third parties through insurance or reinsurance arrangements or analogous transactions. However, there can be no assurance that any such arrangements will actually be available or be available on commercially reasonable terms. In addition, the Friends Life group's counterparties may be affected by unanticipated events that are not covered, or are inadequately covered, by the insurance or reinsurance provision of the business, which could lead to substantial losses. Furthermore, such businesses will be exposed to the credit risk of their insurers or reinsurers. The failure of such businesses to adequately transfer their insurance risk exposure may have a material adverse effect on the business and/or financial condition of the Friends Life group.

The Friends Life group has a substantial exposure to reinsurers through reinsurance arrangements

The Friends Life group has a significant exposure to reinsurers through reinsurance arrangements. Under these reinsurance arrangements, reinsurers assume a portion of the costs, losses and expenses associated with policy claims and maturities and reported and unreported losses in exchange for receiving a portion of policy premiums. Reinsurance arrangements do not, however, negate the insurer's underlying liability to policyholders. This liability remains regardless of whether the reinsurer meets its obligations to the insurer. Consequently, in the absence of security or collateral arrangements with reinsurers the Friends Life group may be exposed to risk in at least two ways: (i) timing and settlement risk, arising from any delay between the insurer satisfying claims made under policies written and the insurer's reinsurance claim being satisfied by the reinsurer; and (ii) credit risk, if the reserves held by the reinsurer to meet claims made by cedent insurers are insufficient to meet those claims. An insurer's exposure to a reinsurer is increased where premium payments to the reinsurer are paid in advance or in a single up-front payment.

In addition, as a proportion of insurance risk arising on new business is likely to be reinsured, changes in reinsurance rates available may impact upon the future profitability of any new business. The availability, amount and cost of reinsurance depends on general market conditions and may vary significantly. Any decrease in the amount of reinsurance cover purchased will increase the risk of loss for the Friends Life group. The availability of reinsurance cover from appropriate counterparties may be restricted and may affect the ability to write new business on the basis envisaged.

Credit and financial strength ratings

Financial strength ratings, which are sometimes referred to as "claims-paying" ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy, and are important factors affecting public confidence in an insurer and its competitive position in marketing products. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. A downgrade in the financial strength ratings or credit ratings of any member of the Friends Life group or the announced potential for a downgrade of any of these ratings, could have a material adverse effect on the business, results of operations or financial condition of the Friends Life group, in many ways, depending on the nature of the business concerned; these could include: (i) reducing demand for its new business life, pensions and protection products; (ii) adversely affecting the Friends Life group's relationships with its intermediaries and corporate partners and materially weakening its competitive position; (iii) reducing public confidence in those businesses; (iv) increasing its costs of borrowing, including in debt capital markets transactions, or increasing collateral requirements under financial instruments; and (v) adversely affecting its ability to obtain reinsurance or retain existing reinsurance or to obtain reasonable pricing on reinsurance, all of which could have a material adverse effect on the financial position and results of operations of the Friends Life group or its ability to achieve its strategy for its businesses. The Friends Life group cannot predict what additional actions rating agencies may take, or what actions it may take in response to the actions of rating agencies, which could adversely affect the Friends Life group's business. As with other companies in the financial services industry, the Friends Life group's ratings could be downgraded at any time and without notice by any rating agency.

On 30 March 2012, Fitch placed its ratings of the Issuer and its rated operating subsidiaries on Rating Watch Negative. On 29 June 2012, S&P affirmed its ratings of the Issuer and its rated operating subsidiaries and removed such ratings from CreditWatch. On 23 August 2012, S&P revised its outlook on the Issuer and its rated operating subsidiaries to stable from negative.

Accounting

The valuation bases for financial assets in the Friends Life group's accounts may include methodologies, estimations and assumptions which are subject to differing interpretations and, depending on the interpretation, could result in changes to investment valuations

In the Friends Life group's IFRS financial reporting, the majority of financial assets and liabilities are carried at fair value. Fair values are based on quoted bid prices for a specific instrument, comparisons with other highly similar financial instruments or the use of valuation models. Establishing valuations where there are no quoted bid prices inherently involves the use of judgement.

During periods of market disruption, rapidly widening credit spreads or illiquidity, such as occurred during the recent financial crisis, it may be difficult to value some assets. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within the Friends Life group's consolidated financial statements and the period-to-period changes in value could vary significantly.

Changes in standards, or in the interpretation of IFRS and other valuation methodologies, both specifically in relation to insurance and more generally, could have a negative effect on the Friends Life group's financial results, distributable reserves or net assets

The Issuer prepares its consolidated financial statements in accordance with IFRS as issued by the EU. The requirement to apply IFRS came into effect for UK listed companies for each financial year starting on or after 1 January 2005. Changes in standards or the interpretation of IFRS can be difficult to anticipate and may materially affect how the Friends Life group records and reports its financial results, which could in turn have a negative effect on the Friends Life group's financial results, distributable reserves and net assets.

In particular, but without limitation to the above, in May 2007 the International Accounting Standards Board published a discussion paper on accounting for insurance contracts. In July 2010 the International Accounting Standards Board published an exposure draft of a new standard on accounting for insurance contracts. Joint discussions between the IASB and FASB are on-going and it is currently expected that a revised exposure draft will be released in 2012, and that the effective date of the new standard will not be before January 2015. The new standard could have an adverse effect on the financial results, distributable reserves or net assets of the Friends Life group.

The Friends Life group's liabilities as reported under IFRS will decrease and increase, respectively, if the yield curve used in valuing such liabilities incorrectly reflects returns on assets with minimal credit risk, which could have a material adverse effect on the Friends Life group's IFRS results and financial condition

In accordance with IFRS, the Friends Life group's provisions are calculated by discounting future policy cash flows based predominantly on market interest rates at the date of valuation. The interest rate used for valuing the liabilities is based on the yield of assets used to back the liabilities, allowing for expected losses on the assets.

Any change in the yield curve in the future could materially alter the Friends Life group's liabilities under IFRS. The Friends Life group's asset/liability matching approach is typically undertaken on a realistic basis. Policyholder liabilities are reported in the results according to their treatment on a regulatory basis. This means that there can be mismatches between the assets and liabilities under IFRS and therefore changes in the valuation yield curve can give rise to IFRS profit or loss. The valuation yield curve will be impacted by underlying interest rate movements or movements in credit spreads. The bond yields are driven by market factors such as trading volumes and perceived credit risk and are therefore subject to volatility. Expected losses reflect current ratings of the bonds and expected transition of these ratings over time, however a downgrade in credit ratings of assets held is likely to result in lower discount rate increasing the value of the liabilities. The IFRS result may also move if actual losses are different from the expected losses on the assets.

Legal and regulatory risks

In recent years there have been significant changes in relevant legislation and regulation, a number of which have had a significant impact on the UK life assurance industry. Various new reforms to the relevant legislation and regulation have also been proposed which could involve significant implementation costs and may create uncertainty in the application of relevant laws or regulation

There have been significant legislative and regulatory changes in recent years in the UK life assurance and pensions market. These have included UK implementation of the IMD on a staged basis between 2004 and 2005, simplification of the pensions regime which was implemented on 6 April 2006, the FSA's "Treating Customers Fairly" initiative and its work on WP business and the FSA's "depolarisation" reforms, each of which has had a significant impact on the UK life assurance industry and, as a consequence, will have had an impact on the Friends Life group. Forthcoming reforms in legislation and regulation can be expected to have a further impact on the Friends Life group, including transitional costs for ensuring compliance with the new regimes.

Regulatory changes will arise following the expected implementation of the FSA's RDR, which is expected to come into force on 31 December 2012. The European Commission is also reviewing the IMD and undertaking an initiative in relation to PRIPs and these developments, when finalised in due course, could have a similar impact to the UK RDR initiative, but may not be the same in all respects. These developments, and their possible consequences, are also discussed in more detail in the risk factor entitled "*The Friends Life group's Life and Pensions Businesses are dependent on distributor firms for the sale of new business"*.

On 7 March 2012 the FSA published a policy statement PS12/4 on protecting WP policyholders. The policy statement includes the final form of new rules adopted by, and new guidance issued by, the FSA with effect from 1 April 2012 applying to firms operating WP funds, which includes part of the Friends Life group, in the areas of interests of policyholders in funds, governance, conflicts of interest, product literature, the treatment of excess surplus and the terms on which new business is written. The Friends Life group will incur transitional costs in connection with achieving compliance with these new requirements.

The European Commission has been carrying out a wide-ranging review of the prudential regulation of insurers including regulatory capital, the calculation of technical provisions, valuation of assets and liabilities, and regulatory and public reporting. The new solvency framework for insurers now being developed at a European level is known as Solvency II ("**Solvency II**"). Solvency II and its possible consequences are discussed in more detail in the risk factor entitled "*The European Commission is currently in the process of introducing a new regime governing solvency margins, own funds and technical provisions, the effect of which is uncertain but which could materially and adversely affect the profitability and financial condition of the Friends Life group"*.

On 1 March 2011, the European Court of Justice (the "**ECJ**") published a ruling in CASE 236/09 (the "**Test-Achats Ruling**"). The ECJ has ruled that the exemption in Article 5(2) of Directive 2004/113/EC (the "**Gender Directive**") which allows insurers to use gender related factors in determining premiums and benefits under insurance policies, is incompatible with the prohibition on discrimination on the grounds of gender enshrined as a fundamental right of the European Union, and is therefore invalid. This is significant for many insurers in Europe which use gender as a risk factor for pricing both general and life insurance policies. The result of this is that, after 21 December 2012, it will be unlawful to use gender-related factors for determining premiums and benefits under insurance policies. On 22 December 2011, the European Commission issued guidelines on the application of the Gender Directive to insurance in light of the Test Achats Ruling. These guidelines, which were published in the Official Journal of EU(OJ) on 13 January 2012, are intended to help the insurance industry implement unisex pricing and aim to facilitate compliance with the Test Achats Ruling at national level. At this stage, despite the European Commission's guidelines, there remains considerable uncertainty as to the nature and extent of the impact of this ruling on the Friends Life group.

The Friends Life group will not always be able to predict accurately the impact of future UK or overseas legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on the Friends Life group, or to predict the impact at all, where such changes have immediate effect. Such changes could, among other things, restrain or limit the rate at which new business can be generated, generate greater costs in servicing existing

policyholders, or result in the members of the Friends Life group being required to increase reserves held to meet insurance liabilities or to hold additional regulatory capital resources.

The Friends Life group is subject to extensive financial regulation and must comply with conduct of business standards and with capital requirements which may be modified by regulatory authorities subject to supervisory assessments of adequacy

All of the UK and overseas regulated insurance companies in the Friends Life group are required to comply with both prudential and conduct of business rules and related requirements enforced by regulators and governmental authorities in the jurisdictions in which they carry on business. Compliance with, monitoring changes to, and understanding the application and interpretation by regulatory and supervisory authorities of applicable laws, regulations and policies requires increasing levels of financial and human resources.

Regulatory rules must frequently be interpreted in light of guidance and/or general principles for the operation of regulated businesses and/or specified consumer outcomes, such as the 'Treating Customers Fairly' principle applicable to FSA-authorised insurers. These interpretative requirements increase the risk that the FSA or an overseas regulator could determine that a regulated insurance company has failed to comply with applicable rules or regulations or has not undertaken adequate corrective action as required.

In the UK, the FSA currently has broad powers under FSMA to intervene in the event of failure by a regulated firm to comply with regulatory rules including the authority to grant, vary the terms of, or cancel a regulated firm's permission, to investigate marketing and sales practices and to require the maintenance of adequate capital resources. It has the power to take a range of formal and informal disciplinary and enforcement actions, including private censure, public censure, restitution, fines or compensation and other sanctions. Disciplinary or enforcement action or any other regulatory proceedings could result in adverse publicity as well as diverting management's attention from the day-to-day management of the business.

Firms which are permitted to carry on insurance business in the UK are required to maintain technical provisions which are sufficient to meet their expected future insurance liabilities and a minimum level of regulatory capital. The position is similar in respect of firms that are permitted to carry on insurance business in European member states and, accordingly, apply similarly to any member of the Friends Life group that is established elsewhere in Europe and supervised by regulatory or governmental authorities in their home state.

The FSA may, when exercising supervisory judgements, modify the level of regulatory capital required to be held by members of the Friends Life group or by the Friends Life group as a whole, which is consolidated for regulatory capital purposes. The exercise of such supervisory judgements by the FSA could result in the Friends Life group being required to raise new regulatory capital resources or refrain from distributing capital out of the Friends Life group.

Current EU legislation, including the Insurance Groups Directive, requires European financial services groups to hold and demonstrate net aggregate surplus capital in excess of minimum requirements at the level of a consolidated EEA group. This European consolidated capital resources requirement applies to the Friends Life group as a continuous requirement, so that the Friends Life group needs to maintain regulatory capital at the EEA consolidated group level which may or may not reflect additional risks at that group level over and above the risks existing at the level of the individual regulated businesses. It is also anticipated that the Solvency II regime will have an impact upon the calculation of group capital, as to which please see the risk factor entitled "*The European Commission is currently in the process of introducing a new regime governing solvency margins, own funds and technical provisions, the effect of which is uncertain but which could materially and adversely affect the profitability and financial condition of the Friends Life group*".

Fluctuations in investment markets and volatility in interest rates and credit spreads could, directly or indirectly, affect the value of assets held in respect of technical provisions and the levels of regulatory capital held by regulated firms within the Friends Life group. Any failure to meet technical provision or regulatory capital requirements could lead to intervention by the FSA. The nature of the intervention in such circumstances is likely to vary depending on the extent and nature of the failure, but such intervention could include (among other things) requiring the relevant regulated firm to produce a plan for addressing any shortfall in technical provisions or capital and in more serious cases could involve a requirement that the regulated firm ceases to write new business or takes other material steps to protect the interests of existing policyholders. Similar considerations will apply to members of the Friends Life group which carry on business outside the UK and are therefore regulated by an authority other than the FSA.

The legislation and regulation affecting members of the Friends Life group govern matters with respect to a wide range of areas. There can be no guarantee that the way in which national or EU regulatory authorities apply or interpret such laws, regulations and policies will not change. Compliance with, and monitoring of, applicable laws, regulations and policies, and the manner of their application and interpretation, may be difficult, time-consuming and costly.

Should the Friends Life group seek to undertake any further acquisitions, the acquisition of an interest in any regulated entities may be subject to regulatory controller regimes in the UK and/or in other applicable jurisdictions that could prohibit such acquisition, delay its completion, or place a number of restrictions or conditions on such acquisition.

Changes to the regulatory systems that apply to Financial Services Businesses could have a detrimental effect on the strategy and profitability of the Friends Life group

The activities and strategies of the Friends Life group are based upon prevailing law and regulation. Changes in, and differing interpretation and application of, law and regulation could have a detrimental effect on the strategy and profitability of the Friends Life group. This could be by (among other things) limiting the activities of such businesses, requiring the deployment of additional resources, or requiring the imposition of additional compliance costs. In addition, such regulatory developments may adversely affect the ability or willingness of customers to use, or counterparties to enter into arrangements with, such businesses or the viability of their strategies or business models.

Following the onset of the ongoing financial crisis, the FSA has adopted a more intrusive and direct style of regulation which it has termed "intrusive supervision". This strategy, combined with the FSA's outcomes-focused regulatory approach, more proactive attitude towards enforcement and more punitive approach to penalties for infringements means that FSA-authorised firms are facing increasing supervisory intrusion and scrutiny (increasing internal compliance costs and FSA supervision fees) and in the event of any breach of regulatory obligations are likely to face comparatively greater financial penalties.

On 16 and 17 June 2010 the UK government announced plans to reform the institutional framework for financial regulation in the UK, and in July 2010 HM Treasury published a policy document explaining and consulting upon the initial proposals for reform. A second policy document and consultation on the reform proposals was published by HM Treasury in February 2011, and this provided additional detail on the proposals for reform. In June 2011, HM Treasury published a legislative proposal for, and opened a consultation on, a draft Financial Services Bill (the "**Financial Services Bill**") to effect the legislative changes necessary for the reform proposals. The Financial Services Bill is now before Parliament. The House of Commons published a revised version of the Financial Services Bill reflecting the amendments made in the Public Bill Committee. The Financial Services Bill is now being considered by a committee of the entire House of Lords.

The Financial Services Bill will, if enacted in its current form, break up the FSA and reallocate its current responsibilities between two new regulatory authorities – a Financial Conduct Authority (the "**FCA**") and a Prudential Regulation Authority (the "**PRA**") – and will establish a Financial Policy Committee (the "**FPC**"), a new authority at the Bank of England with a macro-prudential regulatory role.

The PRA will operate as a subsidiary of the Bank of England, with responsibility for carrying out prudential regulation and supervision of individual insurance companies, banks and certain large investment firms. The Financial Services Bill provides that the PRA's general objective will be to promote the safety and soundness of the firms that it supervises, and that the PRA will have a specific insurance objective of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders of PRA-authorised insurers.

The FCA will be responsible for the conduct of business regulation and supervision of all authorised firms (including firms that are subject to prudential supervision by the PRA), and also for the prudential supervision of firms not supervised by the PRA (including insurance intermediaries). The Financial Services Bill provides that the FCA will have the following "operational objectives": (i) securing an appropriate degree of protection for consumers, (ii) protecting and enhancing the integrity of the UK financial system, and (iii) promoting effective competition in the interests of consumers in the markets for regulated financial services or certain services provided by recognised investment exchanges. The FCA will also have the "strategic objective" of ensuring that the financial markets and markets for regulated financial services function well.

Moreover, the Financial Services Bill provides that the FCA will have new powers of product intervention. If enacted as envisaged by the Financial Services Bill, these powers may enable the FCA to prevent regulated firms, including

insurance companies, from offering or continuing to offer certain products (either generally or to a specific category of customer). The UK government has stated that it does not expect the FCA to use its product intervention powers routinely, but rather to look to greater transparency, disclosure and competition to promote better consumer outcomes. There remains considerable uncertainty, however, as to the manner in which these powers will be interpreted and utilised by the FCA once it is created.

The Financial Services Bill also provides for the creation of the independent FPC at the Bank of England, and confers responsibilities on the FPC to exercise its functions with a view to contributing to the Bank of England's achievement of its financial stability objective. The FPC will be charged with supervising the financial services sector at a macro level, and responding to sectoral issues that could threaten economic and financial stability. The FPC will have powers to give directions to the PRA (and, where necessary, the FCA) with a view to addressing systemic risks relating to the structure of the financial system and how financial institutions interact, and to mitigating the system's cyclicality by addressing imbalances such as unsustainable levels of leverage, debt or growth. An interim FPC was established in February 2011 as a committee of the Bank of England's Court of Directors, tasked with undertaking, as far as possible pending the necessary legislative footing, the forthcoming statutory FPC's macro-prudential role.

The substantial reorganisation of the UK regulatory system that will occur should the Financial Services Bill be enacted has the potential to cause administrative and operational disruption to the authorities concerned, and any such disruption could impact on the resources which the FSA or any successor authority is able to devote to supervising regulated financial services firms, the nature of its approach to supervision, and consequently the ability of regulated firms generally to deal effectively with their supervisors and to anticipate and respond appropriately to developments in regulatory policy.

It is possible that future changes in the nature of, or policies for, prudential and conduct of business regulation as performed by any successor authority to the FSA will differ from the current approach taken by the FSA, including in relation to the maintenance of capital by such businesses and in relation to the appropriateness of products sold by the Friends Life group. This could lead to a period of some uncertainty for Life and Pensions Businesses and any or all of these factors could have an adverse impact on the conduct of the business of the Friends Life group, and on its ability to respond to, and satisfy the supervisory requirements of, the relevant UK regulatory authorities, and therefore also on the strategy and profitability of the Friends Life group.

In addition, the Friends Life group will not always be able to predict accurately the impact of future changes to the supervisory or regulatory approaches taken in relation to overseas regulated businesses in the Friends Life group.

Changes to overseas supervisory approaches and strategies could, among other things, result in the Friends Life group incurring additional costs in preparing for and responding to increased supervisory oversight by regulatory authorities, including more frequent and intrusive supervisory visits and more extensive requests for information.

The European Commission is currently in the process of introducing a new regime governing solvency margins, own funds and technical provisions, the effect of which is uncertain but which could materially and adversely affect the profitability and financial condition of the Friends Life group

The European Commission is implementing a new regime of prudential regulation of insurers including regulatory capital, the calculation of technical provisions, valuation of assets and liabilities, and regulatory and public reporting (the new regime being known as Solvency II). It is intended that the new regime for insurers and reinsurers (apart from very small firms) will apply more risk-sensitive standards to capital requirements, bring insurance capital requirements more closely in line with bank and investment firm capital requirements with a view to avoiding regulatory arbitrage, align regulatory capital with economic capital and bring about an enhanced degree of public disclosure. A central aspect of Solvency II is the focus on a supervisory review at the level of the individual firm. UK insurers will be allowed to make use of internal economic capital models to calculate capital requirements if those models are approved by the FSA; the FSA has established an internal model approval process to enable those firms who wish to use them to have their model approved on the Solvency II implementation date (the FSA started accepting internal model applications on 30 March 2012). Solvency II also requires firms to develop and embed an effective risk management system as a key part of running the firm. The FSA has been carrying out thematic reviews of risk management with major UK insurers as part of its ICAS solvency regime for some time. Considerable further development and documentation in this area is expected to be necessary, and implementation of Solvency II is likely to have cost implications for the Friends Life group.

Directive 2009/138/EC (the "**Solvency II Directive**") is being developed in accordance with the four-level Lamfalussy process. The "Level 1" Framework Directive was formally adopted by the European Council on 10 November 2009. On 12 September 2012, the European Commission adopted a Directive amending the transposition and application dates of the Solvency II Directive (the "**Amending Directive**"). As a result, Member States will be required to transpose its requirements into national law by 30 June 2013, with firms implementing the requirements by 1 January 2014. However, whilst these are the currently anticipated dates, there is a high degree of uncertainty around them given the delays in the legislative process. A proposal for a European Directive which will introduce amendments to the Solvency II Directive (the "**Omnibus II Directive**") is currently being considered in trilogue discussions which include the European Parliament, Council and Commission. Trilogue discussions between the European Commission, the Council of the EU and the European Parliament were held on 18 September 2012 and the European Parliament's vote on the Omnibus II Directive is currently scheduled for 11 March 2013. The European Commission has initiated the process of developing detailed rules that will expand on the high-level principles of the Solvency II Directive, referred to as "Level 2". While a draft was produced in October 2011, the process to finalise these rules cannot commence until the Omnibus II Directive is published in the Official Journal. As a result of the delays in the legislative process, there is significant uncertainty regarding the final text of the Level 2 implementing measures and the Omnibus II Directive and hence the requirements of Solvency II. Therefore, there is a risk that the effect of the measures finally adopted could be adverse for the Friends Life group including, among other things, potentially a significant increase in capital resources required to support its business and costs which have not already been factored into Solvency II preparations associated with modifying the Friends Life group's internal model and/or enhanced risk management and governance framework.

It is currently expected that Solvency II will, to at least some degree, impact the capital treatment, and thereby the costs and pricing of, annuity products. In particular, the Solvency II Directive requires that when valuing insurance liabilities insurers should use a relevant risk-free interest rate term structure to discount those liabilities. It is expected that this rate will be centrally set by EIOPA on the basis of interest rate swap rates, which will have an impact on the level of reserves which the insurer must hold to meet the liabilities and may have a particularly large impact in relation to annuity liabilities. Moreover, the assets held by insurers will be subjected to a more risk-sensitive capital requirement under Solvency II the result of which may be that holdings of corporate and other non-sovereign debt securities become more capital intensive. Unless modified, this combination of factors is likely to create both economic and capital inefficiencies for annuity providers, including members of the Friends Life group, by increasing the valuation of annuity liabilities and the capital cost of holding non-zero-risk assets and thus potentially reducing the relative profitability of annuity business. Existing FSA rules permit UK insurers to discount their insurance liabilities using a rate based on the rate of return on the assets they are holding to cover those liabilities, adjusted for credit risk. This approach allows any 'illiquidity premium' in respect of the assets to be taken into account. A continued ability to apply such an illiquidity premium under Solvency II would mitigate the impact of the changes described above on the valuation of future annuity obligations. It is likely that the Level 1 Framework Directive (as amended by the Omnibus II Directive) or the Level 2 measures will include a 'matching adjustment' concept which would apply to annuity products and would replicate to some extent the current illiquidity premium. It is hoped that this might mitigate the impact of the matters described above in relation to annuity obligations, although there are likely to be differences in the Solvency II requirements, which would result in a more onerous outcome than the current treatment. However, as the Omnibus II Directive is not expected to be finalised before March 2013 at the earliest and formal draft Level 2 measures have not yet been published by the European Commission, the final form of the proposal is unknown, and it remains uncertain what benefit, if any, would be derived by its inclusion.

There is a risk that under Solvency II existing debt instruments issued by the Friends Life group may cease to be eligible as regulatory capital resources to meet the Friends Life group's capital resources requirements or would have a different regulatory capital treatment. Transitional measures included in the draft Solvency II legislation would, if enacted in the final Solvency II legislation, preserve the current regulatory capital treatment of the Friends Life group's regulatory capital debt when the Solvency II regime enters into force, although it is likely that such grandfathering will only apply for a defined period after Solvency II implementation. Solvency II implementation and the limited availability of grandfathering under Solvency II could mean that the Issuer would need to explore options for replacing those debt instruments and there is a risk that refinancing existing debt on comparable terms could prove expensive, difficult or impossible, which could have a material adverse effect on the Friends Life group, including its business and financial condition.

The capital requirements under Solvency II are likely to be more onerous than the current ICA requirements, assuming no optimisation action is taken. It is less clear how different the capital requirements will be to the current Solvency I

(Pillar 1) requirements. This will depend on the final rules. It is also possible that the capital requirements will be more volatile than the current Solvency 1 (Pillar 1) requirements and this will need to be managed through an appropriate capital management policy and risk mitigation actions.

A failure by the Friends Life group to implement the measures required by the Solvency II Directive in a timely manner could also lead to regulatory action and have a material adverse effect on the Friends Life group's reputation, the confidence of its customers and therefore its business.

Potential FSA (or overseas regulator) intervention may occur on industry-wide issues, particularly in actions for customer redress or compensation

From time to time there are issues and disputes which arise from the way in which the insurance industry has, for example, sold or administered a particular type of insurance policy or otherwise treated policyholders, either individually or collectively. These issues and disputes may, for individual policyholders, be resolved by the Financial Ombudsman Service (the "FOS") or any equivalent overseas body or by litigation. However, where larger groups or matters of public policy are concerned, the FSA or an overseas regulator may intervene directly.

In recent years there have been several industry-wide issues in which the FSA has intervened directly. These include the sale of personal pensions (with regard in particular to product disclosure), the sale of mortgage-related endowments, investments in split capital investment trusts and the sale of payment protection insurance (particularly in a single premium form).

The Financial Services Act 2010 introduced into FSMA a new FSA rule-making power in relation to consumer redress schemes. This power enables the FSA to make rules pursuant to which the FSA will be able to require an authorised firm to establish a consumer redress scheme if, based on the assessment of the FSA, consumers have suffered loss or damage as a consequence of a widespread or regular regulatory failure (including but not limited to mis-selling) committed by that firm. The FSA set out in a guidance note published on 23 July 2010, the manner in which it envisages such schemes will operate and the potential triggers for the implementation of such schemes. Moreover, provisions introduced into FSMA by the Financial Services Act 2010 granted the FSA additional powers to vary the permissions held by an authorised firm with the result that the firm will be required to introduce a consumer redress scheme. This is a supervisory power and, accordingly, the FSA is not required to consult before exercising it. The FSA's rule-making power was brought into force on 12 October 2010 and in 2011 the FSA invoked its power several times under FSMA to impose consumer redress schemes on individual firms. Following a joint FSA and FOS consultation in April 2011, the Consumer Redress Schemes Instrument 2011 introduced consequential amendments to the FSA Handbook which came into force on 1 August 2011. The FSA has indicated its intention to consult and publish guidance on its policy for the use of this power but it has not yet done so. Accordingly, there is currently uncertainty as to the exact circumstances in which the FSA intends to exercise this power.

The FSA may identify future industry-wide mis-selling or other issues that could affect the Friends Life group. This may lead from time to time to: (i) significant direct costs or liabilities (including in relation to mis-selling); and (ii) changes in the practices of such businesses which benefit policyholders at a cost to shareholders.

Where businesses operate or accept business from overseas jurisdictions, this may result in potential policyholder claims and regulatory intervention in those jurisdictions on a similar basis and may also include issues relating to the ability to accept such business. Despite the Friends Life group's best efforts to comply with applicable regulations, there are a number of risks in areas where applicable regulations may be unclear, not recognised in a timely manner or where regulators revise their previous guidance or courts overturn previous rulings. Regulators and other authorities have the power to bring administrative proceedings against the Friends Life group which could result, among other things, in the suspension or revocation of licences, cease-and-desist orders, fines, civil penalties, criminal penalties or other disciplinary action. Any such regulatory interventions, administrative proceedings or policyholder claims could damage the reputation of, and/or have a materially adverse effect on the results of operations of, the Friends Life group.

The FOS exists to resolve individual or small business policyholder disputes. Decisions are not made public (although provisions in the draft Financial Services Bill require the FOS to publish reports of its final decisions) but applicants are allowed to pursue other legal remedies if they do not accept the FOS's decision. The FOS may refer matters to the FSA for investigation if it considers that there is a wider implication or interest to the FSA. It did this in the cases of payment protection insurance mis-selling, long-term care insurance policies and closed life funds. Decisions taken by the FOS

(or any overseas equivalent that has jurisdiction) could, if applied to a wider class or grouping of policyholders, have a material adverse effect on the business, results of operations and/or financial condition of the Friends Life group.

Many jurisdictions have established consumer compensation schemes that require mandatory contributions from participants in the financial services sector. In the United Kingdom the statutory consumer compensation scheme is administered through the FSCS. An annual levy on each FSA-authorised firm is calculated based on the compensation costs for the relevant sector incurred and reasonably expected to arise in the following 12 months. In some situations contributions may be required by market participants in one sector (such as insurance) as a result of defaults by market participants in another sector (such as banking). Circumstances may arise when contributions to compensation schemes could be substantially higher than expected (for example, where there has been one or more substantial defaults by market participants) or the basis for calculating the amount of this annual levy is changed. Such circumstances, which may be outside the control of the Friends Life group, could adversely affect the profitability of the Friends Life group.

Changes in taxation law may impact the Friends Life group and may impact upon the decisions of policyholders and potential policyholders

UK and overseas taxation law includes rules governing company taxes, business taxes, personal taxes, capital taxes and indirect taxes. Neither the Issuer nor the Guarantor is able to predict the impact on its business of any changes announced in the future to UK and overseas tax legislation. From time to time changes in the interpretation of existing UK and overseas tax laws, amendments to existing tax legislation, or the introduction of new tax legislation in the UK or overseas may adversely impact the business, results of operations and financial condition of the Friends Life group. Further, there is specific UK and overseas legislation that governs the taxation of life assurance companies, changes to which might adversely affect life assurance companies. Whilst those risks may impact on the life assurance sector as a whole, the impact on the Friends Life group in particular depends upon the mix of long-term business within its portfolios and other relevant circumstances at the time of the change. It should be noted in this regard that the implementation by Member States of Solvency II by 1 January 2013, with firms being required to implement the measures by 1 January 2014, necessitates significant changes to the taxation regime applicable to life assurance companies, and on 23 March 2011 the UK government announced certain decisions in respect of the future of the regime, followed by a period of consultation from 5 April 2011. Legislation of the post-Solvency II insurance tax regime was introduced in the Finance Act 2012.

There are also specific rules governing the taxation of policyholders. The Friends Life group is unable to predict the impact of changes announced in the future to tax law on the taxation of life assurance and pension policies in the hands of policyholders. Amendments to existing legislation (particularly if there is the withdrawal of any tax relief or an increase in tax rates) or the introduction of new rules may impact upon the future life assurance and pensions business and the decisions of policyholders and potential policyholders. The impact of any changes upon the Friends Life group thereafter might depend on the mix of in-force business at the time of the change and could have a material adverse effect on the business, results of operations and/or financial condition of the Friends Life group.

In addition, members of the Friends Life group currently do not bear significant amounts of VAT in respect of services they receive under their outsourced policy administration services agreements. If the amount of VAT payable on those activities were to increase, then this would increase the costs of these companies to the extent that such VAT suffered is not recoverable from HMRC as deductible VAT input tax.

VAT is currently reduced or not charged on services under these agreements because the services are treated as exempt under the insurance intermediaries' exemption. This is currently subject to possible change. In 2005, the decision of the ECJ in Staatssecretaris van Financien v Arthur Andersen & Co Accountants c.s. (Case C-472/03) narrowed the scope of the insurance intermediaries' exemption. Following a consultation, the UK government announced (in December 2005) that it would delay its decision on implementation within the United Kingdom of that court decision until the European Commission had undertaken its own review of the VAT treatment of financial services and insurance. That review led to the European Commission making a number of detailed proposals for changes in the relevant provisions of the EU Directive on the Common System of VAT. Those proposals have not, however, yet been accepted by the EU Council. It is not known when any changes to the UK VAT treatment of insurance intermediation might become law, what form those changes might take and what their impact (if any) on members of the Friends Life group would be. It should be noted that there is no guarantee that the UK government will not alter its position and introduce changes in the absence of action being taken at EU level.

Foreign account tax compliance withholding

Under Sections 1471 through 1474 of the U.S. Internal Revenue Code ("**FATCA**"), the Issuer or, as the case may be, the Guarantor (and other non-U.S. financial institutions through which payments on the Subordinated Notes are made) may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of the Subordinated Notes, unless, in each case, the recipient of the payment complies with certain certification and identification requirements.

If an amount were to be deducted or withheld from interest, principal or other payments on the Subordinated Notes on account of FATCA, neither the Issuer (nor, as the case may be, the Guarantor) nor any paying agent nor any other person would, pursuant to the conditions of the Subordinated Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, if payments in respect of the Subordinated Notes are subject to FATCA withholding, investors may receive less interest or principal than expected.

On 12 September 2012 the United Kingdom and the United States entered into the Intergovernmental Agreement to Improve Tax Compliance and to Implement FATCA (the "**Agreement**"). On 18 September 2012 HM Revenue & Customs launched a consultation on implementing the Agreement into UK law, which is expected to be done as part of the Finance Bill 2013.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. Holders of the Subordinated Notes should consult their own tax advisers on how these rules may affect each holder in its particular circumstance.

Policyholders may attempt to seek redress against the Friends Life group where they allege that a product fails to meet the reasonable expectations of the policyholder, including where there are future changes in legislation

The design of long-term insurance products is predicated on legislation (particularly tax legislation) in force at that time. However, future changes in legislation or interpretation of the legislation may, when applied to these products, have a material adverse effect on the financial condition of the relevant long-term funds of the Life and Pensions Business in which the business was written and therefore have a negative impact on policyholder returns.

Long-term product design, including new business, will take into account, among other things, risks, benefits, charges, expenses, investment return (including bonuses) and taxation. A policyholder or group of policyholders may seek legal redress where the product fails to meet their reasonable expectations. A policyholder or group of policyholders may also seek redress if they consider that they have suffered loss through mis-selling, or through incorrect application of the terms of a policy. Given the inherent unpredictability of litigation and evolution of judgments by the FOS in the UK (whose determinations are not bound by legal rules on precedent), it is possible that an adverse outcome in some matters could have a material adverse effect on the business, reputation, results of operations and/or financial condition of the Friends Life group arising from the regulatory penalties, fees or restrictions imposed or compensation awarded, together with the costs of defending any action.

Investment performance

Past investment returns of the Friends Life group may not be indicative of the Friends Life group's future performance; a failure to replicate past investment returns may result in a decline in new business

Various classes of insurance and non-insurance business undertaken by the Friends Life group produce returns based on investment income. The returns of Friends Life group's investment funds in previous years benefited to an extent from investment opportunities and general market conditions that may not repeat themselves (including, for example, particularly favourable borrowing conditions in the debt markets during 2005, 2006 and early 2007). The Friends Life group may not be successful in replicating its past performance in relation to such investment returns. As a consequence, the historical returns achieved by the Friends Life group may not provide a meaningful basis upon which to assess the future performance of the Friends Life group in this regard. A failure by the Friends Life group to replicate past performance in this regard could adversely affect new business sales and so could have a material adverse effect on the Friends Life group's business, results of operations and/or financial condition.

Future investment underperformance relative to competitors may adversely affect the Friends Life group's ability to attract new business and retain existing business

The assets underlying many of the contracts sold by the Friends Life group are managed by investment managers with whom the Friends Life group has entered into long-term contracts. Investment performance is a factor in the selection of product provider by distributors and their customers for some product types, for example, personal and group pension products. If the investment performance of the investment managers utilised by the Friends Life group were to underperform relative to other asset management firms, it could lead to difficulties for Friends Life group companies in attracting new business and to the early termination, surrender or transfer of existing investment-related business. Difficulties in attracting new business or retaining existing business could have a material adverse effect on the Friends Life group's business, results of operations and/or financial condition.

Other operational exposures

The Friends Life group faces operational risks

Operational risks such as inadequate or failed internal or external processes or systems, human error, regulatory breaches, misconduct of employees or other events such as fraud may result in financial loss as well as harm to the reputation of both the relevant business and the Friends Life group. In addition, the loss of key personnel could adversely affect the operations and results of such businesses and, in turn, the Friends Life group. The Friends Life group is, and will continue to be, exposed to operational risks including in relation to business continuity, IT systems integrity, customer data security, and internal control or compliance weaknesses (including in relation to the adequacy of management information).

The Friends Life group maintains policies and procedures designed to ensure that operational risks are appropriately controlled, including compliance with applicable laws, regulations and regulatory policies. However, such policies and procedures may fail or otherwise prove ineffective due to human error, misconduct or fraud with the result that the relevant business and the Friends Life group may be subject to financial or reputational damage. This could also lead to regulatory intervention.

In particular, a significant proportion of key customer service, administration, IT and back-office functions of Financial Services Businesses are, and increasingly will be, provided by third-party providers under formal outsourcing arrangements. The success of the strategy will depend on the ability of the relevant business to contract successfully and robustly with new outsourced service providers and on the continued performance and financial stability of these providers.

Further, the Friends Life group uses computer systems to store, retrieve, evaluate and utilise customer and company data and information and these computer, information technology and telecommunications systems, in turn, interface with and rely upon third-party systems, including those of third-party outsourced service providers. The Friends Life group is highly dependent on its ability, and the ability of certain third parties, to access these systems to perform necessary business functions, including, without limitation, processing premium payments, making changes to existing policies, filing and paying claims, administering annuity products, providing customer support and managing the Friends Life group’s investment portfolios. Systems failures or outages could compromise the Friends Life group’s ability to perform these functions in a timely manner, which could harm their ability to conduct business as well as their relationships with their business partners and customers. In the event of a disaster, such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, the Friends Life group’s systems could be inaccessible to its employees, customers or business partners for an extended period of time. The Friends Life group’s systems could also be subject to physical and electronic break-ins, and subject to similar disruptions from unauthorised tampering. This may impede or interrupt the Friends Life group’s business operations or lead to unauthorised disclosure or loss of data or data corruption, including customer data, which could lead to legal liability and damage the Friends Life group’s reputation. Further, because of the long-term nature of much of the Friends Life group’s business, accurate records have to be maintained for significant periods. Any of the above could have a material adverse effect on the Friends Life group’s business, financial condition, results and prospects.

Notwithstanding the content of this risk factor, this risk factor should not be taken as implying that either the Issuer, the Guarantor or the Friends Life group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

The Friends Life group also has particular exposure to counterparty risk in relation to various outsourcing and other administrative agreements entered into in relation to such businesses

Key customer service, administration, IT and back-office functions are provided to the Friends Life group by third-party providers. The Friends Life group is reliant in part on the continued performance and security of these providers, including in respect of data protection and other compliance issues and the security of these providers' IT and other systems. Risks arising out of outsourcing include: (i) service failures or defaults; and (ii) attempts by providers to renegotiate the terms of the arrangements, particularly where they have the negotiating power to do so (e.g. if any termination provision were invoked for any reason). Any service failures or defaults by these providers could result in operational problems for the Friends Life group, which could have a material adverse effect on its results. Please see also the third paragraph of the risk factor entitled *"Changes in taxation law may impact the Friends Life group and may impact upon the decisions of policyholders and potential policyholders"*.

The closed life funds forming part of the Life and Pensions Business require careful cost management to avoid exposure to costs that are no longer covered by matching income

Those funds forming part of the Life and Pensions Business which are closed to new business are, by their nature, in long-term run-off. This means that the income and in force value of such funds will decline in the long-term as policies mature and are not replenished by writing new policies. It will be necessary to reduce the costs of managing such closed funds at least in line with the run-off profile, which is addressed partly through the use of outsourcing arrangements. For example, the entry into the outsourcing arrangements with Diligenta which commenced in March 2012, together with the outsourcing arrangement with Capita, mean that most of the policy administration within the Heritage Business will be outsourced. The policy structure of such outsourcing permits the cost base relating to the administration of such policies to be reduced in line with the run-off of the business compared to if no such outsourcing arrangements are entered into. The Life and Pensions Business is exposed to the risk that it may be unable to reduce costs proportionately or to adjust to an appropriate new balance of fixed and variable costs. This exposure could arise, for example, from deficient management, contractual restrictions, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. The current expense assumptions for policy charges are based on anticipated governance costs and the underlying administration services contracts, whether with intragroup or external providers and these assumptions may prove incorrect. An inability to adjust costs in line with the run-off profile of such closed life funds could have a material adverse effect on the Friends Life group's business, results, prospects and financial condition.

The Friends Life group's success depends upon its ability to attract, motivate and retain key personnel

The success of the business of the Friends Life group depends on its ability to attract, motivate and retain highly skilled management and other personnel, particularly those who operate in technical areas such as actuarial analysis, financial analysis and tax. The inability to attract, motivate and retain such people could have a material adverse effect on the Friends Life group's business, results of operations and/or financial condition. Also, certain individuals are required to be approved by the FSA and, where relevant, overseas regulators in order to perform their functions in relation to the Life and Pensions Businesses. If such persons ceased to be fit and proper and accordingly ceased to be approved by the FSA or any relevant overseas regulator, they would not be able to perform their relevant functions in relation to the Friends Life group and their services would effectively be lost to the Friends Life group.

The Friends Life group is vulnerable to adverse market perception as it operates in a highly regulated industry where it must display a high level of integrity and have the trust and the confidence of its customers and their advisers

Any mismanagement, fraud or failure to satisfy fiduciary responsibilities, or any negative publicity resulting from its activities (whether well founded or not), or any accusation by a third party in relation to activities (whether well founded or not) which are associated with the Friends Life group, or the industry generally, could have a material adverse effect on the business, results of operations and/or financial condition of the Friends Life group. In particular, reputational damage to the Friends Life group could adversely affect new business sales and margins. Negative publicity in respect of the Friends Life group could also potentially result in regulators subjecting the Friends Life group's business to closer scrutiny than would otherwise be the case, which in turn may result in higher costs or sanctions or fines.

The Friends Life group may be required to make significant further contributions to the pension scheme(s) within its businesses if the value of pension fund assets is not sufficient to cover potential obligations

A deficit will arise in relation to an ongoing defined benefit pension scheme where there has been investment underperformance (i.e. where the value of the asset portfolios and returns from them are less than expected) and also where there are greater than expected increases in the estimated value of the scheme's liabilities, for example on account of increased longevity of participants in the pension scheme.

Under Section 75 of the Pensions Act 1995, there are also certain circumstances which cause a debt to become due by the participating employer to the trustees of the pension scheme. The debt is calculated as the employer's share of the buy-out deficit of a scheme. A scheme's buy-out deficit would generally be expected to be higher than its ongoing funding deficit. Trigger events for Section 75 are: (i) the winding up of the scheme, (ii) an insolvency event (which has a statutory definition) occurring in relation to a participating employer or, (iii) an employer cessation event (whereby a participating employer ceases to be an employer in the scheme e.g. because the employer is sold or moved out of the group or where it remains in the group but no longer employs any employees who are active members of the pension scheme), while at least one other company continues to do so.

A defined benefit pension scheme's trustees are required to undertake regular valuations of the scheme and agree statutory funding plans, although the trustees are free to call for a further valuation on an earlier date if they see fit. Copies of the statutory funding plans may need to be provided to the Pensions Regulator which may, if it is not satisfied that the relevant companies will eliminate the funding deficit in a timely manner, require the trustees of the relevant pension scheme to seek to revise the plan. The companies concerned could also be pressured by the pension trustees or, in certain circumstances, directed by the Pensions Regulator, to make additional contributions to the pension schemes (e.g. as a result of any corporate activity which the Pensions Regulator views as having a material, detrimental effect on the pension schemes).

In addition, the UK Pensions Regulator has powers to require members of the Friends Life group and their "connected" or "associated" persons to provide additional contributions or other forms of financial support in certain circumstances.

The Friends Life group maintains the FPPS, a defined benefit pension scheme, for past and current employees of certain of its Life and Pensions Businesses (this scheme closed to new members as of 1 July 2007). There is the risk that the liabilities of the defined benefit pension schemes, which are long-term in nature, may at any time exceed the value of that scheme's assets.

During recent periods, the Friends Life group has voluntarily made contributions to the FPPS in addition to those needed to fund continuing benefit accrual. Given the recent economic and financial market difficulties and the prospects for them to continue over the near and medium term, the Friends Life group may be required or elect to make further deficit contributions to the FPPS and/ or put in place contingent assets backed by security. Such contributions could be significant and have a negative impact on the Issuer's results of operations. The latest valuation of FPPS liabilities for which results are available was undertaken in September 2008 and revealed a £65 million deficit on an ongoing funding basis. Whilst a programme of contributions to repair this deficit has been agreed with the trustee of the FPPS on the basis of present circumstances, further amounts beyond the level of agreed contributions may still be required in the event of, among other things, large acquisitions or disposals by the Friends Life group, or an increase in the pension scheme deficit due to continued investment underperformance. It is not possible to predict what the extent of those further contributions (if any) may be.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE SUBORDINATED NOTES

Risks Related to the Structure of the Subordinated Notes

The Subordinated Notes have features which entail particular risks for potential investors

(Capitalised terms used but not defined in this section have the meaning given to them in the Terms and Conditions of the Subordinated Notes on pages 44 to 68 of this Prospectus.)

Early Redemption: The Subordinated Notes may, subject as provided in Condition 6 (Redemption, Substitution, Variation and Purchase), be redeemed at the option of the Issuer on 8 November 2018 or on any Interest Payment Date thereafter or following the occurrence of a Tax Law Change or a Regulatory Event, in each case at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

As discussed in greater detail in the section of this Prospectus entitled "*UK Insurance Regulation*", the EU is currently developing a new solvency framework for insurance companies known as "Solvency II". The new framework will, among other things, cover the definition of capital and, accordingly, will set out the features which any capital (including subordinated notes) must have in order to qualify as regulatory capital. These features are not expected to be settled until, at the earliest, when Level 2 measures relating to Solvency II are finalised in 2012 or 2013 and there can be no assurance that, following the initial publication of such details, the implementation measures will not be amended. Moreover, there is considerable uncertainty as to how relevant regulators, including the FSA, will interpret the Level 2 measures.

The Issuer currently expects the Subordinated Notes, upon the implementation of Solvency II, to qualify (but for any applicable limitations on the amount of such capital) as either Tier 1 Capital or Tier 2 Capital. However, details of the implementation of Solvency II have not been finalised and are subject to change prior to the implementation of Solvency II. Accordingly, there is a risk that after the issue of the Subordinated Notes, a Regulatory Event may occur which would entitle the Issuer to redeem the Subordinated Notes early at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Subordinated 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.

Subordination: The Issuer's payment obligations under the Subordinated Notes will be unsecured and subordinated (i) on a winding-up of the Issuer and (ii) in the event that an administrator is appointed to the Issuer and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of Senior Creditors (as defined in "*Terms and Conditions of the Subordinated Notes*" herein) of the Issuer.

The Guarantor's payment obligations under the Subordinated Notes will be unsecured and subordinated (i) on a winding-up of the Guarantor and (ii) in the event that an administrator is appointed to the Guarantor and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of Guarantor Senior Creditors (as defined in "*Terms and Conditions of the Subordinated Notes*" herein and which includes Internal Subordinated Funding and Existing Internal Regulatory Capital Instruments, each as defined in "*Terms and Conditions of the Subordinated Notes*") of the Guarantor.

Although the Subordinated Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Subordinated Notes will lose all or some of his investment should the Issuer and/or the Guarantor become insolvent.

No specified maturity date: The Issuer is under no obligation to redeem the Subordinated Notes at any time, and Noteholders have no right to call for the redemption of the Subordinated Notes. This means that Noteholders have no ability to liquidate their investment, except: (i) if the Issuer exercises its rights to redeem or purchase the Subordinated Notes in the limited circumstances set out in "*Terms and Conditions of the Subordinated Notes – 6. Redemption, Substitution, Variation and Purchase*"; (ii) if permitted in the circumstances described in "*Terms and Conditions of the Subordinated Notes – 8. Events of Default and Enforcement*"; or (iii) by selling their Subordinated Notes in the secondary market. The redemption of the Subordinated Notes by the Issuer is subject to the satisfaction of certain conditions which are more particularly described in "*Terms and Conditions of the Subordinated Notes – 6. Redemption, Substitution, Variation and Purchase*". There can be no assurance that Noteholders will be able to reinvest the amount received upon any redemption or sale of the Subordinated Notes at a rate that will provide the same rate of return as their investment in the Subordinated Notes.

Solvency Condition, Mandatory Interest Deferrals, Optional Interest Deferrals and Mandatory Redemption Deferrals: The payment obligations by the Issuer under the Subordinated Notes are conditional upon there being no breach of the Issuer Solvency Condition at the time of such payment and no such breach as a result of such payment and, in the case of the payment of interest, there being no Regulatory Deficiency Interest Deferral Event at the time of such payment and no such event occurring as a result of such payment and, in the case of the redemption of the

Subordinated Notes, the satisfaction of Condition 6(b) and there being no Regulatory Deficiency Redemption Deferral Event at the time of such payment and no such event occurring as a result of such payment. The Issuer may elect to defer any payment of interest on the Subordinated Notes which is otherwise scheduled to be made on any Interest Payment Date.

Any payment made pursuant to the Guarantee is conditional upon there being no breach of the Guarantor Solvency Condition at the time of such payment and no such breach as a result of such payment and, in the case of any payment under the Guarantee in respect of interest, there being no Guarantor Regulatory Deficiency Interest Deferral Event at the time of such payment and no such event occurring as a result of such payment and, in the case of any payment under the Guarantee in respect of amounts relating to the redemption of the Subordinated Notes, there being no Guarantor Regulatory Deficiency Redemption Deferral Event at the time of such payment and no such event occurring as a result of such payment. The Guarantor may elect to defer any payment of amounts under the Guarantee in respect of interest on the Subordinated Notes which is otherwise scheduled to be made on any Interest Payment Date.

Any such deferral could have an adverse effect on the market value of the Subordinated Notes.

Arrears of Interest: Any interest in respect of the Subordinated Notes not paid by the Issuer on an Interest Payment Date due to the occurrence of a Regulatory Deficiency Interest Deferral Event, a failure to satisfy the Issuer Solvency Condition or the exercise of the Issuer's right to defer payment of interest under the Subordinated Notes will, so long as they remain unpaid, constitute Arrears of Interest. Arrears of Interest, the payment of which has been so deferred by the Issuer, will become payable by the Issuer upon the earliest of the dates set out in Condition 5(c)(A) to (C).

Any interest in respect of the Subordinated Notes not paid by the Guarantor on an Interest Payment Date due to the occurrence of a Guarantor Regulatory Deficiency Interest Deferral Event, a failure to satisfy the Guarantor Solvency Condition or the exercise of the Guarantor's right to defer payment of interest under the Subordinated Notes will, so long as they remain unpaid, constitute Arrears of Interest. Arrears of Interest, the payment of which has been so deferred by the Guarantor, will become payable by the Guarantor upon the earliest of the dates set out in Condition 5(f)(A) to (C).

Deferral of Redemption: If redemption of the Subordinated Notes does not occur on the date specified in the notice of redemption by the Issuer under Condition 6(c), Condition 6(d)(ii)(A) or Condition 6(e)(i), as applicable, as a result of the occurrence of a Regulatory Deficiency Redemption Deferral Event which is continuing or because such event would occur if redemption is made, then, subject (where applicable) to Condition 2(b) and to any notifications to, or consent from, (in either case if and to the extent applicable) the FSA, such Subordinated Notes shall be redeemed by the Issuer at their principal amount together with accrued interest and any Arrears of Interest upon the earliest of the dates set out in Condition 6(a)(iii)(A) to (C).

If redemption of the Subordinated Notes does not occur on the date specified in the notice of redemption by the Issuer under Condition 6(c), Condition 6(d)(ii)(A) or Condition 6(e)(i), as applicable, as a result of the Issuer Solvency Condition not being satisfied at such time, subject to any notifications to, or consent from, (in either case if and to the extent applicable) the FSA, such Subordinated Notes shall be redeemed by the Issuer at their principal amount together with accrued interest and any Arrears of Interest in accordance with Condition 6(a)(iv). If the obligations of the Guarantor under the Guarantee to make payment in relation to the redemption of the Subordinated Notes are mandatorily deferred because a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if such payment is made, unless all payments in respect of such redemption of the Subordinated Notes are subsequently made by the Issuer, such payment will become due and payable by the Guarantor in accordance with Condition 6(j)(v).

Any such deferral could have an adverse effect on the market value of the Subordinated Notes.

Although the Subordinated Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Subordinated Notes will lose all or some of his investment should the Issuer and/or the Guarantor become insolvent.

Modifications, waivers and substitution: If a Tax Law Change occurs the Issuer may, under Condition 6(d)(ii)(B), or if a Regulatory Event occurs the Issuer may, under Condition 6(e)(ii), subject, in each case, to the conditions stated therein, substitute at any time all (but not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes so that they become Qualifying Tier 2 Securities, without the consent of the Noteholders. In

addition, the Trust Deed constituting the Subordinated Notes contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed constituting the Subordinated Notes also provides that, subject to the prior consent of the FSA being obtained (so long as such consent is required), the Trustee may (except as set out in the Trust Deed), without the consent of Noteholders, agree to certain modifications of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Subordinated Notes or to the substitution of another company as principal debtor or guarantor under the Subordinated Notes in place of the Issuer or, as the case may be, in place of the Guarantor in the circumstances described in Condition 11 (Meetings of Noteholders, Modification, Waiver and Substitution) of the Terms and Conditions of the Subordinated Notes.

Interest Rate Reset: On the First Reset Date and on each sixth anniversary of the First Reset Date, the Interest Rate on the Subordinated Notes will be reset by reference to the then prevailing Six Year US Dollar Mid Swap Rate, as more particularly described in "Terms and Conditions of the Subordinated Notes – 4. Interest". The reset of the Interest Rate in accordance with such provisions may affect the secondary market and the market value of the Subordinated Notes and following any such reset of the Interest Rate, the new Interest Rate on the Subordinated Notes may be lower than the previous Interest Rate on the Subordinated Notes, thereby reducing the amount of interest payable to Noteholders.

No limitation on issuing senior or *pari passu* securities: There is no restriction on the amount of securities which the Issuer and/or the Guarantor may issue and/or guarantee and which rank senior to, or *pari passu* with, the Subordinated Notes and accordingly, the Issuer and/or the Guarantor may at any time incur, issue and/or guarantee further debt or securities which rank senior to, or *pari passu* with, the Subordinated Notes. Consequently there is no assurance whatsoever that the current level of senior or *pari passu* debt of the Issuer and/or the Guarantor will not change. The issue and/or guarantee of any such securities may reduce the amount recoverable by Noteholders on a winding-up of the Issuer and/or the Guarantor. In particular, the Subordinated Notes shall rank junior to the claims of Senior Creditors of the Issuer. Accordingly, in the winding-up of the Issuer and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders (as defined in the "*Terms and Conditions of the Subordinated Notes*" herein) and in the winding-up of the Guarantor and after payment of the claims of the Guarantor Senior Creditors, there may not be sufficient amounts available to satisfy the amounts owing to the Noteholders.

Restricted remedy for non-payment when due: In accordance with the FSA's requirements for Tier 2 Capital, 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 Terms and Conditions of the Subordinated Notes) any Noteholder for recovery of amounts which have become due in respect of the Subordinated Notes and Coupons will be the institution of proceedings for the winding-up of the Issuer or the Guarantor and/or proving in such winding-up or administration and/or claiming in the liquidation of the Issuer or the Guarantor.

The Issuer and the Guarantor are holding companies and therefore payments on the Subordinated Notes are structurally subordinated to the liabilities and obligations of the Issuer's and the Guarantor's subsidiaries

The Issuer is the parent company of the Friends Life group with the operations of the Friends Life group being conducted by operating subsidiaries. The Guarantor is an operating company, but is also the holding company for a number of operating subsidiaries. Accordingly, and notwithstanding the ability of the Guarantor to make payments due under the Subordinated Notes from its own resources, creditors of a subsidiary would have to be paid in full before sums would be available to the shareholders of that subsidiary and so to Noteholders. The Terms and Conditions of the Subordinated Notes do not limit the amount of liabilities that the Issuer's or the Guarantor's subsidiaries may incur. In addition, the Issuer and the Guarantor may not necessarily have access to the full amount of cash flows generated by its operating subsidiaries, due in particular to legal or tax constraints, contractual restrictions and the subsidiary's financial requirements.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the redemption, if any, of the Subordinated Notes, there can be no assurance that this would not adversely affect investors in the Subordinated Notes. It is possible that prior to the redemption, if any, of the Subordinated Notes the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Subordinated Notes may become payable in Euro (ii) the law may allow or require such Subordinated

Notes to be re-denominated into Euro and additional measures to be taken in respect of such Subordinated Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on the Subordinated Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Subordinated Notes.

Because the Global Note is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Subordinated Notes will be represented by the Global Note. The Global Note will be deposited with a common depositary for, and registered in the name of the common nominee of, Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Note, investors will not be entitled to receive Definitive Registered Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note.

While the Subordinated Notes are represented by the Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. The Issuer will discharge its payment obligations under the Subordinated Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Subordinated Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note.

Change of law

The Terms and Conditions of the Subordinated Notes are based on English law in effect as at the date of issue of the Subordinated 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 Subordinated Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Directive"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise, as it is understood Belgium has done) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed with the EU to adopt similar measures (a withholding tax system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a 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 under the Directive, neither the Issuer, the Guarantor nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Subordinated Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Integral multiples of US$200,000

The Subordinated Notes are issued in the denomination of US$200,000 and higher integral multiples of US$1,000 thereafter (up to and including US$399,000), and accordingly it is possible that the Subordinated Notes may be traded in amounts in excess of US$200,000 that are not integral multiples of US$200,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than US$200,000 will not receive a definitive Subordinated Note in respect of such holding (should definitive Subordinated Notes be printed) and would need to purchase a principal amount of Subordinated Notes in order to hold an amount equal to or greater than US$200,000.

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

The Issuer (and failing which the Guarantor, subject to the Terms and Conditions of the Subordinated Notes) will pay principal and interest on the Subordinated Notes in U.S. dollars. 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 U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars 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 U.S. dollars would decrease (1) the Investor's Currency-equivalent yield on the Subordinated Notes, (2) the Investor's Currency equivalent value of the principal payable on the Subordinated Notes and (3) the Investor's Currency equivalent market value of the Subordinated Notes.

Governments 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

An investment in the Subordinated Notes is an investment in fixed rate notes and so involves the risk that subsequent changes in market interest rates may adversely affect the value of the Subordinated Notes.

Inflation risk

The value of future payments of interest and principal may be reduced as a result of inflation as the real rate of interest on an investment in the Subordinated Notes will be reduced at rising inflation rates and may be negative if the inflation rate rises above the nominal rate of interest on the Subordinated Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Subordinated Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Subordinated 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.

TERMS AND CONDITIONS OF THE SUBORDINATED NOTES

The issue of the US$575,000,000 7.875 per cent. Reset Perpetual Subordinated Notes (the "**Subordinated Notes**", which expression shall, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Subordinated Notes) of Friends Life Group plc (the "**Issuer**") was authorised by resolutions of the board of Directors of the Issuer passed on 25 September 2012 and 6 November 2012 and a resolution of a duly authorised committee of the board of Directors of the Issuer passed on 12 October 2012 and the giving of the Guarantee was authorised by resolutions of the board of Directors of Friends Life Limited (the "**Guarantor**") passed on 19 September 2012 and 6 November 2012 and a resolution of a duly authorised committee of the board of Directors of the Guarantor passed on 10 October 2012.

The Subordinated Notes are constituted by a trust deed (the "**Trust Deed**") dated the Issue Date made between the Issuer, the Guarantor and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Subordinated Notes (the "**Noteholders**"). The Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Subordinated Notes and of the interest coupons (the "**Coupons**") appertaining to the Subordinated Notes in definitive form.

Payments in respect of the Subordinated Notes will be made pursuant to the paying and calculation agency agreement dated on the Issue Date (the "**Paying and Calculation Agency Agreement**") and made between the Issuer, Citibank, N.A., London Branch as the initial principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor thereto), the other initial paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include the Paying Agents for the time being) and the Trustee.

Copies of the Trust Deed and the Paying and Calculation Agency Agreement are available for inspection during usual business hours at the registered office of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of each of the Paying Agents. The Noteholders and the holders of the Coupons (whether or not attached to the relevant Subordinated Notes) (the "**Couponholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

1. Form, Denomination and Title

(a) Form and Denomination

The Subordinated Notes are serially numbered and in bearer form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof up to and including US$399,000 each with Coupons attached on issue. No definitive Subordinated Notes will be issued with a denomination below US$200,000 or above US$399,000.

(b) Title

Title to the Subordinated Notes and Coupons passes by delivery. The holder of any Subordinated Note or Coupon 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 in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2. Status and Subordination of the Subordinated Notes

(a) Status and Subordination

The Subordinated Notes and Coupons relating to them constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. If 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 have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and do not provide that the Subordinated Notes shall thereby become payable) or if, following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend, there shall be payable by the Issuer in respect of the Subordinated Notes (in lieu of any other payment by the Issuer) such amount, if any, that would have been payable in respect thereof as if, on the day immediately before the commencement of the winding-up or the giving by the administrator of notice that it intends to declare and distribute a dividend (as the case may be) and thereafter, the Noteholders were the holders of preference shares (as at the date thereof) in the capital of the Issuer ranking *pari passu* with the holders of the most senior ranking class of issued preference shares of the Issuer, if any, and any other Pari Passu Securities of the Issuer then outstanding, junior to its Senior Creditors and in priority to all holders of its Junior Securities, assuming that the holders of such preference shares were entitled to receive on a return of capital in such winding-up an amount equal to the unpaid principal amount of

the Subordinated Notes or other amounts due and payable and unpaid on redemption of the Subordinated Notes, together with any unpaid Arrears of Interest and any other interest that has accrued and is unpaid in respect of the Subordinated Notes.

(b) Issuer Solvency Condition

Without prejudice to Condition 2(a) above, all payments under or arising from the Subordinated Notes, the Coupons relating to them and the Trust Deed shall be conditional upon the Issuer being solvent at the time of payment by the Issuer and no amount shall be payable under or arising from the Subordinated Notes, the Coupons relating to them and the Trust Deed except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the "**Issuer Solvency Condition**").

For the purposes of this Condition 2(b), the Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors and Pari Passu Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors). A certificate as to the solvency of the Issuer signed by two Directors or, if there is a winding-up or administration of the Issuer, the liquidator or, as the case may be, the administrator of the Issuer shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and Couponholders and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such certificate without any liability to any person. In a winding-up of the Issuer or in an administration of the Issuer if the administrator has given notice of his intention to declare and distribute a dividend, the amount payable in respect of the Subordinated Notes and the Coupons relating to them shall be an amount equal to the principal amount of such Subordinated Notes, together with Arrears of Interest, if any, and any interest (other than Arrears of Interest) which has accrued up to, but excluding, the date of repayment in accordance with Condition 8(c) and will be subordinated in the manner described in Condition 2(a) above.

Any interest in respect of the Subordinated Notes not paid on an Interest Payment Date, together with any interest in respect of the Subordinated Notes not paid on an earlier Interest Payment Date (in each case by virtue of this Condition 2(b) or Condition 5(a) or Condition 5(b) which apply to the Issuer or Condition 3(e) or Condition 5(d) or Condition 5(e) which apply to the Guarantor) shall, so long as the same remains unpaid, constitute "**Arrears of Interest**". The Issuer shall satisfy any Arrears of Interest which arise as a result of this Condition 2(b) at the time referred to in Condition 5(c).

(c) Set off, etc.

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

3. Status and Subordination of the Guarantee and Guarantor Solvency Condition

(a) Status

The Guarantor has (subject as provided in Conditions 3(b), 3(c), 3(e), 5(d), 5(e) and 6(j)) in the Trust Deed irrevocably guaranteed the due and punctual payment of all the Guaranteed Amounts. The obligations of the Guarantor under such guarantee (the "**Guarantee**") constitute direct, unsecured and subordinated obligations of the Guarantor and under such Guarantee, the Guarantor shall (subject as provided in the aforementioned Conditions) pay any Guaranteed Amount which is (or is deemed under Condition 3(b) below to be) due and payable by the Issuer which the Issuer fails for any reason whatsoever to pay punctually.

(b) Obligations of the Guarantor

(i) Due and Payable:

For the purpose 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 (as referred to in Condition 3(a) above), the payment of any principal, interest and Arrears of Interest shall be deemed to be due and payable by the Issuer notwithstanding whether the Issuer Solvency Condition under Condition 2(b) is satisfied or any of Conditions 5(a), 5(b), 6(a)(ii) or 6(b) apply, provided that, in the event that any such amount is paid by the Guarantor under the Guarantee, such payment by the Guarantor shall be treated as satisfying the Trustee, any Noteholder or Couponholder's right to payment of such amounts under the Trust Deed, the Subordinated Notes and the Coupons.

(ii) Winding-up of the Issuer:

Where an order is made, or an effective resolution is passed, for the winding-up of the Issuer, or an administrator of the Issuer is appointed and such administrator has given notice that he intends to declare and distribute a dividend, in each case in the circumstances set out in Condition 2(a) (each a "**Relevant Issuer Event**"), 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 Subordinated Notes, the Coupons and the Trust Deed as if the Relevant Issuer Event 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 Subordinated Notes as a result of such Relevant Issuer Event. In addition to the rights conferred on the Guarantor by these Conditions and the Trust Deed, the Guarantor shall have the rights or 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 Subordinated Notes in the circumstances set out in Conditions 6(c), (d), (e) and (g) (but, for the avoidance of doubt, excluding the Issuer's rights pursuant to Conditions 2(b), 5(a), 5(b) and 6(a)(ii)) and accordingly, all references in the Conditions and the Trust Deed to the Issuer shall, to the extent necessary to confer such rights or benefits, be construed as references to the Guarantor.

In the event that any payment is made to the Trustee (other than payments made to the Trustee in its personal capacity under the Trust Deed), the Noteholders and/or Couponholders in respect of the claims arising under the terms of the Subordinated Notes, the Coupons and the Trust Deed by the liquidator or the administrator (as applicable) of the Issuer after the occurrence of any Relevant Issuer Event (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 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 Subordinated Notes under the Guarantee by an amount equal to the Issuer Non-Interest Portion with effect from 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 Subordinated Notes from (and including) the Issuer Recovered Amount Payment Date.

(iii) Deferral of payments under the Guarantee

The obligations of the Guarantor under the Guarantee to make any payment of Guaranteed Amounts in respect of interest on the Subordinated Notes may be optionally deferred by the Guarantor in accordance with Condition 5(d) and will be mandatorily deferred in accordance with Condition 5(e) and shall only become payable by the Guarantor in accordance with Condition 5(f). The obligations of the Guarantor under the Guarantee to make any payment of Guaranteed Amounts in relation to the redemption of the Subordinated Notes will be mandatorily deferred in accordance with Condition 6(j)(i) and shall only become payable by the Guarantor in accordance with Condition 6(j)(v).

(c) Guarantor Subordination

If 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, a solvent winding-up solely for the purpose of a reconstruction or amalgamation of the Guarantor, the terms of which reconstruction or amalgamation have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and do not provide that the Subordinated Notes shall thereby become payable) or if, following the appointment of an

administrator of the Guarantor, the administrator gives notice that it intends to declare and distribute a dividend, there shall be payable by the Guarantor in respect of the Subordinated Notes (in lieu of any other payment by the Guarantor) such amount, if any, that would have been payable in respect thereof as if, on the day immediately before the commencement of the winding-up or the giving by the administrator of notice that it intends to declare and distribute a dividend (as the case may be) and thereafter, the Noteholders were the holders of preference shares (as at the date thereof) in the capital of the Guarantor ranking *pari passu* with the holders of the most senior ranking class of issued preference shares of the Guarantor (except any preference shares that are also Internal Subordinated Funding and/or Existing Internal Regulatory Capital Instruments), if any, and any other Guarantor Pari Passu Securities then outstanding, junior to the Guarantor Senior Creditors and in priority to all Guarantor Junior Creditors, assuming that the holders of such preference shares were entitled to receive on a return of capital in such winding-up an amount equal to the amount payable to the Noteholders under the Guarantee.

(d) Guarantor Recovered Amounts

In the event that any payment is made to the Trustee (other than payments made to the Trustee in its personal capacity under the Trust Deed), the Noteholders and/or Couponholders in respect of the claims under the terms of the Subordinated Notes, the Coupons and the Trust Deed by the liquidator or administrator (as applicable) of the Guarantor at a time when a Relevant Issuer Event has not occurred (such amount paid, the "**Guarantor Recovered Amount**"), any Guarantor Recovered Amount shall reduce the amounts payable by the Issuer under the terms of the Subordinated Notes, the Coupons and the Trust Deed in the following manner:

(i) 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 Subordinated Notes, the Coupons and the Trust Deed by an amount equal to the Guarantor Interest Portion with effect from the Guaranteed Recovered Amount Payment Date; and

(ii) 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 Subordinated Notes under the Subordinated Notes, the Coupons and the Trust Deed by an amount equal to the Guarantor Non-Interest Portion with effect from 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 Subordinated Notes from (and including) the Guarantor Recovered Amount Payment Date.

(e) Guarantor Solvency Condition

Without prejudice to Condition 3(c) above, all payments under or arising from the Guarantee shall be conditional upon the Guarantor being solvent at the time of payment by the Guarantor and no amount shall be payable under the Guarantee except to the extent that the Guarantor could make such payment and still be solvent immediately thereafter (the "**Guarantor Solvency Condition**").

For the purposes of this Condition 3(e), the Guarantor will be solvent if (i) it is able to pay its debts owed to Guarantor Senior Creditors and Guarantor Pari Passu Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Guarantor Junior Creditors). A certificate as to the solvency of the Guarantor signed by two of its Directors or, if there is a winding-up or administration of the Guarantor, the liquidator or, as the case may be, the administrator of the Guarantor shall, in the absence of manifest error, be treated and accepted by the Guarantor, the Trustee, the Noteholders and Couponholders and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such certificate without any liability to any person. In a winding-up of the Guarantor or in an administration of the Guarantor if the administrator has given notice of his intention to declare and distribute a dividend, Guaranteed Amounts will be subordinated in the manner described in Condition 3(c) above.

The Guarantor shall satisfy any Arrears of Interest which arise as a result of this Condition 3(e) at the time referred to in Condition 5(f).

4. Interest

(a) Interest Rate and Interest Payment Dates

Subject to Condition 2(b) and Condition 5, the Subordinated Notes bear interest:

(i) in respect of the period from (and including) the Issue Date to (but excluding) 8 November 2018 (the "**First Reset Date**") at the rate equal to 7.875 per cent. per annum (being the rate equal to 1.047 per cent. per annum plus the Margin); and

(ii) in respect of each successive six-year period thereafter, the first such period commencing on (and including) the First Reset Date and ending on (but excluding) the sixth anniversary thereof (each a "**Relevant Six-Year Period**"), at such rate per annum as is equal to the sum of the Six Year US Dollar

Mid Swap Rate and (ii) the Margin (rounded down to four decimal places, with 0.00005 being rounded down), as determined by the Calculation Agent on the relevant Interest Determination Date in accordance with the Paying and Calculation Agency Agreement,

payable, in each case, semi-annually in arrear on 8 May and 8 November of each year (each an "**Interest Payment Date**"). The first payment shall be in respect of the period from and including the Issue Date to but excluding 8 May 2013, and thereafter for each successive period, from and including an Interest Payment Date to but excluding the next Interest Payment Date.

The Interest Rate in respect of any Relevant Six-Year Period shall be determined by the Calculation Agent on the relevant Interest Determination Date.

(b) Interest Accrual

Each Subordinated Note will cease to bear interest from (and including) its due date for redemption unless, upon due presentation, payment of the principal in respect of the Subordinated Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

(c) Calculation of Interest

Interest in respect of each Subordinated Note shall be calculated per US$1,000 in principal amount of that Subordinated Note (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the Interest Rate in respect of such period, the Calculation Amount and the Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed).

5. Deferral of payment of interest

(a) Issuer Optional Deferral of Interest

The Issuer may, subject to Condition 5(b), elect to defer any payment of interest on the Subordinated Notes which is otherwise scheduled to be made on a Discretionary Interest Payment Date by giving notice to the Trustee and the Noteholders in writing no later than 5 Business Days prior to such Interest Payment Date.

The Issuer shall, subject to Condition 2(b) and Condition 5(b), be obliged to pay interest accrued in an Interest Period which ends on an Interest Payment Date which is a Compulsory Interest Payment Date.

A certificate signed by two Directors confirming that an Interest Payment Date is a Discretionary Interest Payment Date or a Compulsory Interest Payment Date shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the holders of the Subordinated Notes and the Coupons relating to them and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such certificate without liability to any person.

(b) Issuer Mandatory Deferral of Interest

Payment of interest on the Subordinated Notes will be mandatorily deferred on any Interest Payment Date on which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such Interest Payment Date.

The Issuer shall notify the Trustee and the Noteholders in writing no later than 5 Business Days prior to an Interest Payment Date (or as soon as reasonably practicable if a Regulatory Deficiency Interest Deferral Event occurs less than 5 Business Days prior to an Interest Payment Date) if a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or if a Regulatory Deficiency Interest Deferral Event would occur on the Interest Payment Date if payment of interest was made.

A certificate signed by two Directors confirming that (i) a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest is made or (ii) a Regulatory Deficiency Interest Deferral Event has ceased to occur and payment of interest 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 Trustee, the holders of the Subordinated Notes and the Coupons relating to them and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such certificate without liability to any person.

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

Arrears of Interest shall not themselves bear interest.

(c) Issuer Arrears of Interest

If, on any Interest Payment Date, interest in respect of the Subordinated Notes shall not have been paid as a result of Condition 5(a) or Condition 5(b) or as a result of a breach of the Issuer Solvency Condition in Condition 2(b), then from the date of such Interest Payment Date until such time as the full amount of the relevant Arrears of Interest has been received by the Noteholders or the Trustee and no other payment of Arrears of Interest remains unsatisfied, the Issuer shall not:

(i) make any other payment on, and will procure that no dividend, distribution or other payment is declared or paid on, any Junior Securities or Pari Passu Securities, save where the Issuer is not able to defer, pass or eliminate a dividend or other distributions or any other payment in accordance with the terms and conditions of the Junior Securities or Pari Passu Securities; or

(ii) purchase, repurchase, redeem, cancel or otherwise acquire any Junior Securities or Pari Passu Securities (with the exception of repurchases in connection with share option or share ownership schemes for management or employees of the Issuer or affiliates of the Issuer made in the ordinary course of business or save where the Issuer is not able to defer, pass or eliminate any other payment or any other obligation in respect of such purchase, repurchase, redemption, cancellation or other acquisition in accordance with the terms of the Junior Securities or Pari Passu Securities).

Any Arrears of Interest, payment of which is deferred in accordance with Condition 5(a) or Condition 5(b) or as a result of a breach of the Issuer Solvency Condition in Condition 2(b), may (subject to Condition 2(b) and to any notifications to, or consent from the FSA) (in either case if and to the extent required) be paid in whole or in part at any time upon the expiry of 14 days' notice to such effect given to the Trustee and the Noteholders in accordance with Condition 14, and in any event will become due and payable by the Issuer subject (only in the case of (A) and (C) below) to Condition 2(b) and any notifications to, or consent from the FSA (in either case if and to the extent required) in whole (and not in part) upon the earliest of the following dates:

(A) the next Interest Payment Date on which no Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such Interest Payment Date (taking into account for this purpose the payment of Arrears of Interest on such Interest Payment Date) and in respect of which the Issuer has not exercised its rights pursuant to Condition 5(a);

(B) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than a solvent winding-up for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (ii) do not provide that the Subordinated Notes shall thereby become payable) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend; and

(C) the date fixed for any redemption or purchase of Subordinated Notes by or on behalf of the Issuer pursuant to Condition 6 or Condition 8.

(d) Guarantor Optional Deferral of Interest

The Guarantor may, subject to Condition 5(e), elect to defer its obligation under the Guarantee to make any payment of Guaranteed Amounts in respect of interest on the Subordinated Notes on any Discretionary Interest Payment Date by giving notice to the Trustee and the Noteholders in writing of such election no later than 5 Business Days after the date on which the Guarantor becomes aware of its obligation to make payment of the relevant Guaranteed Amount in respect of interest under the Guarantee.

The Guarantor shall, subject to Condition 3(e) and Condition 5(e), be obliged under the Guarantee to pay Guaranteed Amounts in respect of interest on the Subordinated Notes accrued in an Interest Period which ends on an Interest Payment Date which is a Compulsory Interest Payment Date.

A certificate signed by two Directors confirming that an Interest Payment Date is a Discretionary Interest Payment Date or a Compulsory Interest Payment Date shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the holders of the Subordinated Notes and the Coupons relating to them and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such certificate without liability to any person.

(e) Guarantor Mandatory Deferral of Interest

The obligations of the Guarantor under the Guarantee to make payments of Guaranteed Amounts in respect of interest on the Subordinated Notes will be mandatorily deferred on any date on which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such date.

The Guarantor shall notify the Trustee and the Noteholders in writing no later than 5 Business Days after the date on which the Guarantor becomes aware of its obligation to make payment of the relevant Guaranteed Amount in respect of interest under the Guarantee and if a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or if a Guarantor Regulatory Deficiency Interest Deferral Event would occur if payment of the Guaranteed Amount in respect of interest was made.

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 interest is made or (b) a Guarantor Regulatory Deficiency Interest Deferral Event has ceased to occur and payment of interest 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 Guarantor, the Trustee, the holders of Subordinated Notes and the Coupons relating to them and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such confirmation without any liability to any person.

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment under the Guarantee in accordance with Condition 3(e), Condition 5(d) or this Condition 5(e) will not constitute a default by the Guarantor or the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Subordinated Notes.

(f) Guarantor Arrears of Interest

If payments of Guaranteed Amounts in respect of interest on the Subordinated Notes shall not have been paid as a result of Condition 5(d) or Condition 5(e) or as a result of a breach of the Guarantor Solvency Condition in Condition 3(e), then, in the case of Condition 5(d), from the date on which the Guarantor gives notice to the Trustee and Noteholders of the election referred to in such Condition, in the case of Condition 5(e), from the date on which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and, in the case of Condition 3(e), from the date on which the Guarantor Solvency Condition has been breached, until such time as the full amount of the relevant Arrears of Interest has been received by the Noteholders or the Trustee and no other payment of Arrears of Interest remains unsatisfied, the Guarantor shall not:

(i) make any other payment on, and will procure that no dividend, distribution or other payment is declared or paid on, any Guarantor Junior Securities or Guarantor Pari Passu Securities, save where the Guarantor is not able to defer, pass or eliminate a dividend or other distributions or any other payment in accordance with the terms and conditions of the Guarantor Junior Securities or Guarantor Pari Passu Securities; or

(ii) purchase, repurchase, redeem, cancel or otherwise acquire any Guarantor Junior Securities or Guarantor Pari Passu Securities (with the exception of repurchases in connection with share option or share ownership schemes for management or employees of the Guarantor or affiliates of the Guarantor made in the ordinary course of business or save where the Guarantor is not able to defer, pass or eliminate any other payment or any other obligation in respect of such purchase, repurchase, redemption, cancellation or other acquisition in accordance with the terms of the Guarantor Junior Securities or Guarantor Pari Passu Securities).

Any Arrears of Interest, payment of which under the Guarantee is deferred in accordance with Condition 5(d) or Condition 5(e) or as a result of a breach of the Guarantor Solvency Condition in Condition 3(e), unless such Arrears of Interest have subsequently been paid by the Issuer, may (subject to Condition 3(e) and to any notifications to, or consent from the FSA) (in either case if and to the extent required) be paid in whole or in part at any time upon the expiry of 14 days' notice to such effect given to the Trustee and the Noteholders in accordance with Condition 14, and in any event will become due and payable by the Guarantor subject (only in the case of (A) and (C) below) to Condition 3(e) and any notifications to, or consent from the FSA (in either case if and to the extent required) in whole (and not in part) upon the earliest of the following dates:

(A) the next Interest Payment Date on which no Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made (taking into account for this purpose the payment of Arrears of Interest on such Interest Payment Date) and in respect of which the Guarantor has not exercised its rights pursuant to Condition 5(d);

(B) the date on which an order is made or a resolution is passed for the winding-up of the Guarantor (other than a solvent winding-up for the purposes 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 (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (ii) do not provide that the Subordinated Notes shall thereby become

payable) or the date on which any administrator of the Guarantor gives notice that it intends to declare and distribute a dividend; and

(C) the date fixed for any redemption or purchase of the Subordinated Notes by or on behalf of the Issuer pursuant to Condition 6 or Condition 8 provided that on such date no Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made (taking into account for this purpose the payment of Arrears of Interest on such date).

6. Redemption, Substitution, Variation and Purchase

(a) Redemption

(i) The Subordinated Notes have no fixed redemption date and the Issuer shall (subject to Condition 2(b), Condition 6(a)(ii) below and to compliance by the Issuer with regulatory rules on notification to, or consent from (in either case, if and to the extent applicable) the FSA) only have the right to redeem, substitute, vary or purchase them in accordance with the following provisions of this Condition 6 or in accordance with Condition 11.

(ii) No Subordinated Notes shall be redeemed pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made on any date specified for redemption in accordance with Condition 6(c), Condition 6(d)(ii)(A) or Condition 6(e)(i). The Issuer shall notify the Trustee and the Noteholders in writing no later than 5 Business Days after the date on which the Issuer becomes aware that a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made on any date specified for redemption in accordance with Condition 6(c), Condition 6(d) or Condition 6(e).

(iii) If redemption of the Subordinated Notes does not occur on the date specified in the notice of redemption by the Issuer under Condition 6(c), Condition 6(d)(ii)(A) or Condition 6(e)(i) as a result of Condition 6(a)(ii) above, then, subject (in the case of (A) and (B) below only) to Condition 2(b) and to any notifications to, or consent from, (in either case if and to the extent applicable) the FSA, such Subordinated Notes shall be redeemed at their principal amount together with accrued interest and any Arrears of Interest upon the earliest of:

(A) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased provided that redemption of Subordinated Notes on such date would not result in a Regulatory Deficiency Redemption Deferral Event occurring; or

(B) the date falling 10 Business Days after the FSA has agreed to the repayment or redemption of the Subordinated Notes by the Issuer; or

(C) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than a solvent winding-up solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (ii) do not provide that the Subordinated Notes shall thereby become payable) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend.

(iv) If Condition 6(a)(ii) does not apply, but redemption of the Subordinated Notes does not occur on the date specified in the notice of redemption by the Issuer under Condition 6(c), Condition 6(d)(ii)(A) or Condition 6(e)(ii) as a result of the Issuer Solvency Condition not being satisfied at such time, subject to any notifications to, or consent from, (in either case if and to the extent applicable) the FSA, such Subordinated Notes shall be redeemed at their principal amount together with accrued interest and any Arrears of Interest on the tenth Business Day immediately following the day that (A) the Issuer is solvent for the purposes of Condition 2(b) and (B) redemption of the Subordinated Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 2 (b), 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 Subordinated Notes were to be redeemed then the Subordinated Notes shall not be redeemed on such date and Condition 2(b) and Condition 6(a)(iii) shall apply *mutatis mutandis* to determine the date of the redemption of the Subordinated Notes.

(v) A certificate signed by two Directors confirming that (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption of Subordinated Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and redemption of Subordinated 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 Trustee, the Noteholders and Couponholders and all other interested parties as correct and sufficient evidence thereof, shall be

binding on such parties and the Trustee shall be entitled to rely on such certificate without liability to any person.

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

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

(i) Prior to any notice of redemption or any substitution, variation or purchase of the Subordinated Notes, or a modification of the Subordinated Notes in accordance with Condition 11(b), the Issuer will be required to have complied with regulatory rules on notifications to, or consent from, (in either case, if and to the extent required) the FSA and (in the case of a notice of redemption only) to be in continued compliance with Regulatory Capital Requirements applicable to it.

(ii) A certificate signed by any two Directors confirming such compliance shall be conclusive evidence of such compliance and the Trustee shall be entitled to rely on such certificate without liability to any person.

(iii) In the case of a redemption before 8 November 2017, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that it would have been reasonable for the Issuer to conclude, judged at the time of the issue of the Subordinated Notes, that the circumstance entitling the Issuer to exercise the right of redemption was unlikely to occur. Such certificate shall be conclusive evidence of the satisfaction of the condition set out in this paragraph (iii), and the Trustee shall rely on such certificate without liability to any person.

(c) Redemption at the Option of the Issuer

On 8 November 2018 or on any Interest Payment Date thereafter and unless the Issuer shall have given notice to redeem the Subordinated Notes under Condition 6(d) or Condition 6(e) on or prior to the expiration of the notice referred to below, the Issuer may at its option, subject to Condition 2(b), Condition 6(a)(ii) and Condition 6(b), and having given not less than 30 nor more than 60 days' irrevocable notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), redeem all (but not some only) of the Subordinated Notes at their principal amount, together with any interest accrued to (but excluding) the date of redemption and any Arrears of Interest. All of the Subordinated Notes shall be redeemed on the date specified in the notice given in accordance with this Condition 6(c).

(d) Redemption, Substitution or Variation at the Option of the Issuer due to Taxation

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

(i) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions (in respect of securities similar to the Subordinated Notes and which are capable of constituting Tier 2 Capital) or which differs from any specific written confirmation given by a tax authority in respect of the Subordinated Notes, which change or amendment (x) becomes, or would become, effective on or after the Issue Date (the "**Tax Law Change Date**"), or (y) in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by United Kingdom Act of Parliament or by Statutory Instrument, on or after the Tax Law Change Date (a "**Tax Law Change**"), in making any payments on the Subordinated Notes, the Issuer or the Guarantor has paid or will or would on the next Interest Payment Date (in the case of the Guarantor, if the Guarantor were required to make such payment) be required to pay Additional Amounts (as defined in Condition 9) on the Subordinated Notes and the Issuer or the Guarantor, as the case may be, cannot avoid the foregoing by taking measures reasonably available to it; or

(ii) as a result of a Tax Law Change in respect of the Issuer's or the Guarantor's obligation to make any payment of interest on the next following Interest Payment Date (in the case of the Guarantor, if the Guarantor were required to make such payment), (x) the Issuer or the Guarantor, as the case may be, would not be entitled to claim a deduction for such interest in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; (y) the Issuer or the Guarantor, as the case may be, would not be entitled to have such deduction set against the profits of companies with which

it is grouped for applicable United Kingdom tax purposes; or (z) the Issuer or the Guarantor, as the case may be, would otherwise suffer adverse tax consequences, and in each such case the Issuer or the Guarantor, as the case may be, cannot avoid the foregoing in connection with the Subordinated Notes by taking measures reasonably available to it, then:

(A) the Issuer may, subject to Condition 2(b), Condition 6(a)(ii) and Condition 6(b) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all (but not some only) of the Subordinated Notes at their principal amount, together with any interest accrued to (but excluding) the date of redemption and any Arrears of Interest; or

(B) the Issuer may, subject to Condition 6(b) (without any requirement for the consent or approval of the Noteholders or Couponholders) 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 14, the Noteholders (which notice shall be irrevocable), substitute at any time all (but not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes so that they become, Qualifying Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (B) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of Qualifying Tier 2 Securities and the opinion of an independent investment bank of international standing referred to in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation. 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 such substitution or variation of the Subordinated Notes for or into Qualifying Tier 2 Securities provided that the Trustee shall not be obliged to participate or co-operate in any such substitution or variation of the terms if the securities into which the Subordinated Notes are to be substituted or are to be varied or the participation in or co-operation in such substitution or variation impose, in the Trustee's opinion, more onerous obligations upon it or expose it to liabilities or reduce its protections. If the Trustee does not so participate or co-operate as provided above, the Issuer may, subject as provided above, redeem the Subordinated Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation due to taxation pursuant to this Condition 6(d) the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that the relevant requirement or circumstance referred to above in this Condition 6(d) applies (which the Trustee shall be entitled to rely on without liability to any person) and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above in which event it shall be conclusive and binding on the Trustee and the Noteholders and Couponholders. Upon expiry of such notice the Issuer shall redeem, vary or substitute the Subordinated Notes, as the case may be.

(e) Redemption, Substitution or Variation at the Option of the Issuer due to a Regulatory Event

If immediately prior to the giving of the notice referred to below a Regulatory Event has occurred and is continuing, then:

(i) the Issuer may, subject to Condition 2(b), Condition 6(a)(ii) and Condition 6(b) and having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14, the Trustee (which notice shall be irrevocable) and the Principal Paying Agent, redeem in accordance with these Conditions all (but not some only) of the Subordinated Notes at any time at their principal amount, together with any interest accrued to (but excluding) the date of redemption and any Arrears of Interest in accordance with these Conditions; or

(ii) the Issuer may subject to Condition 6(b) (without any requirement for the consent or approval of the Noteholders or Couponholders) and having given not less than 15 nor more than 30 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Subordinated Notes for, or vary the terms of the Subordinated Notes so that they become, Qualifying Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (ii) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of Qualifying Tier 2 Securities and the opinion of an independent investment bank of international standing referred to in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation. 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 such substitution or variation of the Subordinated Notes for or into Qualifying Tier 2 Securities provided that the Trustee shall not be obliged to participate or co-operate in any such substitution or variation if the terms of the securities into which the Subordinated Notes are to be substituted or are to be varied or the participation in or co-

operation in such substitution or variation impose, in the Trustee's opinion, more onerous obligations upon it or expose it to liabilities or reduce its protections. If the Trustee does not so participate or co-operate as provided above, the Issuer may, subject as provided above, redeem the Subordinated Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6(e) the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Regulatory Event has occurred and is continuing as at the date of the certificate (which the Trustee shall be entitled to rely on without liability to any person), and the Trustee shall accept such certificate as sufficient evidence of the occurrence and continuation of a Regulatory Event in which event it shall be conclusive and binding on the Trustee and the Noteholders and Couponholders. Upon expiry of such notice the Issuer shall either redeem, vary or substitute the Subordinated Notes, as the case may be.

(f) Compliance with Stock Exchange Rules

In connection with any redemption, substitution or variation in accordance with Condition 6(c), Condition 6(d) or Condition 6(e), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Subordinated Notes are for the time being listed or admitted to trading, and (for so long as the Subordinated Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market) shall publish a supplement in connection therewith if the Issuer is required to do so in order to comply with Section 87G of FSMA.

(g) Purchases

The Issuer and any Subsidiary of the Issuer may, subject to Condition 6(b), at any time purchase Subordinated Notes (provided that all unmatured Coupons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) Cancellation

All Subordinated Notes redeemed or substituted by the Issuer pursuant to this Condition 6 (together with all unmatured Coupons relating thereto) will forthwith be cancelled. All Subordinated Notes purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation (together with all unmatured Coupons) to the Principal Paying Agent. Subordinated Notes so surrendered shall be cancelled forthwith (together with all unmatured Coupons). Any Subordinated Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Subordinated Notes and Coupons shall be discharged.

(i) Trustee Not Obliged to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within Condition 5 or this Condition 6 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 6, it shall be entitled to assume that no such event or circumstance exists.

(j) Guarantor Deferral of Redemption

(i) 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 Subordinated Notes will be mandatorily deferred if a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if such payment is made.

(ii) The Guarantor shall notify the Trustee and the Noteholders in writing no later than 5 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 Subordinated Notes and if a Guarantor Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or if a Guarantor Regulatory Deficiency Redemption Deferral Event would occur if such payment was made.

(iii) 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 Subordinated 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 Subordinated 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 Guarantor, the Trustee, the holders of the Subordinated Notes and the Coupons relating to

them and all other interested parties as correct and sufficient evidence thereof, shall be final and binding on such parties and the Trustee shall be entitled to rely on such certificate without liability to any person.

(iv) Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment under the Guarantee in relation to the redemption of the Subordinated Notes in accordance with Condition 3(e) or this Condition 6(j) will not constitute a default by the Guarantor or the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Subordinated Notes.

(v) If the obligations of the Guarantor under the Guarantee to make payment in relation to the redemption of the Subordinated Notes are mandatorily deferred in accordance with Condition 6(j)(i) above, unless all payments in respect of such redemption of the Subordinated Notes are subsequently made by the Issuer, such payment will become due and payable by the Guarantor (subject to Condition 3(e) (only in the case of (A) and (B) below) and any notifications to, or consent from the FSA (in either case if and to the extent required)) in whole (and not in part) upon the earliest of:

(A) the date falling 10 Business Days after the date the Guarantor Regulatory Deficiency Redemption Deferral Event has ceased provided that payment under the Guarantee in relation to the redemption of Subordinated Notes on such date would not result in a Guarantor Regulatory Deficiency Redemption Deferral Event occurring; or

(B) the date falling 10 Business Days after the FSA has agreed to the repayment or redemption of the Subordinated Notes by the Guarantor; or

(C) the date on which an order is made or a resolution is passed for the winding-up of the Guarantor (other than a solvent winding-up solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Guarantor or of a successor in business of the Guarantor, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (ii) do not provide that the Subordinated Notes shall thereby become payable) or the date on which any administrator of the Guarantor gives notice that it intends to declare and distribute a dividend.

7. Payments

(a) Method of Payment

(i) Payments of principal and interest will be made against presentation and surrender of Subordinated Notes or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Subordinated Notes. Such payments will be made, at the option of the payee, by a pounds sterling cheque drawn on, or by transfer to a pounds sterling account maintained by the payee with, a bank in London.

(ii) Each Subordinated Note shall be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 19) in respect of the relevant Note (whether or not the relevant Coupon would otherwise have become void pursuant to Condition 10). If any Subordinated Note is presented for redemption without all unmatured Coupons appertaining to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(b) Payments Subject to Fiscal Laws

All payments made in accordance with these Conditions shall be made subject to: (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction but without prejudice to the provisions of Condition 9; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto ("**FATCA**"). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) Payments on Business Days

A Subordinated Note or Coupon may only be presented for payment on a day which is a Business Day in the place of presentation and, in the case of payment by transfer to a U.S. dollar account, in New York City. No

further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this paragraph falling after the due date.

8. Events of Default and Enforcement

(a) Rights to institute winding-up of the Issuer

Notwithstanding any of the provisions below in this Condition 8, the right to institute winding-up proceedings of the Issuer is limited to circumstances where payment has become due. Pursuant to Condition 2(b), no principal, interest or any other amount will be due on the relevant payment date if the Issuer Solvency Condition is not satisfied at the time of, and immediately after, any such payment. In the case of any payment of interest in respect of the Subordinated Notes, such payment will be deferred and will not be due if Condition 5(a) or Condition 5(b) applies and in the case payment of principal, such payment will be deferred and will not be due if Condition 6(a)(ii) applies.

If:

(i) default is made by the Issuer for a period of 7 days or more in the payment of any interest due in respect of the Subordinated Notes or any of them; or

(ii) default is made by the Issuer for a period of 7 days or more in the payment of principal due in respect of the Subordinated Notes or any of them,

the Trustee may at its discretion, and if 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 Subordinated Notes then outstanding shall, institute proceedings for the winding-up of the Issuer in England and Wales (but not elsewhere) and/or 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) for such payment, but may take no further or other action to enforce, prove or claim for any such payment. No payment in respect of the Subordinated Notes, the Coupons or the Trust Deed may be made by the Issuer pursuant to Condition 8(a), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or an administration of the Issuer where the administrator has given notice of his intention to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent (if required) from, the FSA which the Issuer shall confirm in writing to the Trustee.

(b) Rights to institute winding-up of the Guarantor

Notwithstanding any of the provisions below in this Condition 8, the right to institute winding-up proceedings of the Guarantor is limited to circumstances where payment under the Guarantee has become due. Pursuant to Condition 3(e), no principal, interest or any other amount will be due on the relevant payment date if the Guarantor Solvency Condition is not satisfied at the time of, and immediately after, any such payment. In the case of any payment under the Guarantee in respect of interest under the Subordinated Notes, such payment will be deferred and will not be due if Condition 5(d) or Condition 5(e) applies and in the case of any payment under the Guarantee in relation to redemption of the Subordinated Notes, such payment will be deferred and will not be due if Condition 6(j) applies.

If:

(i) default is made by the Guarantor for a period of 7 days or more in respect of any payment due under the Guarantee in respect of interest due under the Subordinated Notes or any of them; or

(ii) default is made by the Guarantor for a period of 7 days or more in respect of any payment due under the Guarantee in respect of principal due under the Subordinated Notes or any of them,

the Trustee may at its discretion, and if 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 Subordinated Notes then outstanding shall, institute proceedings for the winding-up of the Guarantor in England and Wales (but not elsewhere) and/or 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) for such payment, but may take no further or other action to enforce, prove or claim for any such payment. No payment in respect of the Subordinated Notes, the Coupons or the Trust Deed may be made by the Guarantor pursuant to Condition 8(b), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Guarantor, or an administration of the Guarantor where the administrator has given notice of his intention to declare and distribute a dividend unless the Guarantor has given prior written notice (with a copy to the Trustee) to, and received consent (if required) from the FSA, which the Guarantor shall confirm in writing to the Trustee.

(c) Amount payable on winding-up

(i) Issuer winding-up: If an order is made by the competent court or a resolution passed for the winding-up of the Issuer, (except, in any such case, a solvent winding-up, solely for the purpose of a reconstruction or amalgamation 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 Subordinated Notes shall thereby become payable) or in an administration of the Issuer, the administrator of the Issuer gives notice that he intends to declare and distribute a dividend, the Trustee at its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Subordinated Notes then outstanding or if so directed by an Extraordinary Resolution shall (in each case subject to Condition 8(e)), give notice to the Issuer that the Subordinated Notes are, and they shall accordingly forthwith become, immediately due and repayable at the amount equal to their principal amount together with accrued interest and any Arrears of Interest. However, as regards the Guarantor's obligation to pay under the Guarantee upon the occurrence of an Relevant Issuer Event, Condition 3(b)(ii) shall apply.

(ii) Guarantor winding-up: If an order is made by the competent court or a resolution passed for the winding-up of the Guarantor, (except, in any such case, a solvent winding-up, solely for the purpose of a reconstruction or amalgamation of the Guarantor, 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 Subordinated Notes shall thereby become payable) or in an administration of the Guarantor, the administrator gives notice that he intends to declare and distribute a dividend, the Trustee at its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Subordinated Notes then outstanding or if so directed by an Extraordinary Resolution shall (in each case subject to Condition 8(e)), prove for the Guaranteed Amounts in such winding-up but the Subordinated Notes shall not thereby become immediately due and repayable by the Issuer.

(d) Enforcement

Without prejudice to Condition 8(a), (b) or (c) and subject to Condition 8(e), the Trustee may at its discretion and without further notice institute such actions, steps or proceedings against the Issuer or the Guarantor as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor (as the case may be) under the Trust Deed, the Subordinated Notes or the Coupons (other than any payment obligation of the Issuer or the Guarantor under or arising from the Subordinated Notes, the Coupons or the Trust Deed, including, without limitation, payment of any principal, premium or interest in respect of the Subordinated Notes or the Coupons and any damages awarded for breach of any obligations and payment under the Guarantee) and in no event shall the Issuer or the Guarantor, by virtue of the institution of any such actions, steps or 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 8(d) shall, (i) subject to Condition 8(a), prevent the Trustee instituting proceedings for the winding-up of the Issuer in England and Wales and/or, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer (whether in England and Wales or elsewhere) in respect of any payment obligations of the Issuer arising from the Subordinated Notes, the Coupons or the Trust Deed (including, without limitation, payment of any principal, premium or interest in respect of the Subordinated Notes or the Coupons and any damages awarded for breach of any obligations) or (ii) subject to Condition 8(b), prevent the Trustee instituting proceedings for the winding-up of the Guarantor in England and Wales and/or, proving in any winding-up of the Guarantor and/or claiming in any liquidation of the Guarantor (whether in England and Wales or elsewhere) in respect of any payment obligations of the Guarantor under the Guarantee.

(e) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions, steps or proceedings referred to in Conditions 8(a), (b), (c) or (d) above against the Issuer or the Guarantor to enforce the terms of the Trust Deed, the Subordinated Notes or the Coupons or any other action, steps or proceedings 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 Subordinated Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(f) Right of Noteholders

No Noteholder or Couponholder 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, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 8.

(g) Extent of Noteholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 8, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Subordinated Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Subordinated Notes, Coupons or under the Trust Deed.

9. Taxation

All payments by or on behalf of the Issuer or the Guarantor in respect of the Subordinated Notes and Coupons and the Guarantee will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, collected, withheld, assessed or levied by or on behalf of the United Kingdom, or any political subdivision of, or any authority of, or in, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer or the Guarantor, as the case may be, will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders or Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Subordinated Notes or Coupons, as the case may be, in the absence of the withholding or deduction ("**Additional Amounts**"), except that no such Additional Amounts shall be payable in relation to any Subordinated Notes or Coupon:

(i) presented for payment by, or on behalf of, a Noteholder who is liable for such Taxes in respect of such Subordinated Notes or Coupons by reason of his having some connection with the United Kingdom other than the mere holding of such Subordinated Notes or Coupons; or

(ii) presented for payment by, or on behalf of, a Noteholder who would be able to avoid such withholding or deduction by complying, or procuring that any third party complies, with any requirement to provide such evidence as is required by statute or making a declaration or any other statement or claim, including, but not limited to, a declaration of non-residence, but fails to do so; or

(iii) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Noteholder would have been entitled to such Additional Amounts on presenting the same for payment on such thirtieth day; or

(iv) 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 conclusion of the ECOFIN Council Meeting of 26 to 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

(v) presented for payment by, or on behalf of, a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

References in these Conditions to principal and/or interest and/or such other amounts shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes resident for tax purposes in any jurisdiction other than the United Kingdom, references in these Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

For the avoidance of doubt, no additional amounts will be paid on the Subordinated Notes or the Coupons with respect to any amounts deducted or withheld from a payment on the Subordinated Notes or the Coupons pursuant to or in connection with FATCA, as described in Condition 7(b).

10. Prescription

Claims in respect of Subordinated Notes and Coupons will become void unless presented for payment within a period of 10 years in the case of principal and five years in the case of interest from the Relevant Date relating thereto.

11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders, Modification and Waiver

Except as provided herein, any modification to these Conditions or any provisions of the Trust Deed will require the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and provided that there is a requirement to give such notice).

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Subordinated Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the principal amount of the Subordinated Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and the Trust Deed (including, *inter alia*, the provisions regarding subordination referred to in Condition 2, the terms concerning currency and the due dates for payment of principal or interest in respect of the Subordinated Notes and reducing or cancelling the principal amount of any Subordinated Notes or reducing the Interest Rate and to modify or cancel the Guarantee) the quorum will be one or more persons holding or representing not less than two thirds, or at any adjourned such meeting not less than one-third in principal amount of the Subordinated Notes for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders. The Trust Deed provides that a written resolution signed by or on behalf of the Noteholders holding or representing not less than 90 per cent. in principal amount for the time being outstanding of the Subordinated Notes shall be as valid and effective as an Extraordinary Resolution duly passed at any meeting of Noteholders.

Notwithstanding any other provision of these Conditions and as provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders or Couponholders, (i) to any modification (except as mentioned in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or (ii) to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or error proven to the satisfaction of the Trustee or to comply with the mandatory provisions of the law of the jurisdiction in which the Issuer or the Guarantor (as the case may be) is incorporated or (iii) to any modification which is, in the opinion of the Trustee, necessary or expedient to enable the Issuer or the Guarantor (as the case may be) to create, issue, incur, give or assume obligations or guarantees of obligations ranking in priority to or *pari passu* with or junior to the obligations of the Issuer in respect of the Subordinated Notes and Coupons or the obligations of the Guarantor under the Guarantee (as the case may be).

(b) Elevation of the subordination of the Subordinated Notes at the option of the Issuer and the Guarantor

On any date the Issuer and the Guarantor may, by giving not less than 30 days' notice in writing to the Trustee and the Noteholders, modify the provisions of the Trust Deed and Condition 2(a), Condition 3(c) and Condition 19 so that with effect from the date specified by the Issuer in such notice (the "**Modification Date**") amounts payable by the Issuer in respect of the Subordinated Notes shall rank *pari passu* with all other obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of any such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation), and amounts payable by the Guarantor in respect of the Subordinated Notes shall rank *pari passu* with all other obligations of the Guarantor which constitute, or would but for any applicable limitation on the amount of any such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation), but excluding (i) any Internal Subordinated Funding and (ii) for so long as they are outstanding, the Existing Internal Regulatory Capital Instruments. The modifications which shall be effected to the Trust Deed and Condition 2(a), Condition 3(c) and Condition 19 if the Issuer and the Guarantor exercise their option pursuant to this Condition 11(b) are set out in the Trust Deed. Promptly following receipt of such notice, the Trustee, the Issuer and the Guarantor shall, without the consent of the Noteholders and with neither the Issuer nor the Guarantor being required to satisfy any other conditions, enter into such documentation as the Issuer and the Guarantor require in order to give effect to such modifications with effect from the Modification Date.

(c) Substitutions

Subject to the Issuer and/or the Guarantor (as the case may be) giving at least one month's notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and in any case only if there is a requirement to give such notice), the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders or Couponholders:

(i) subject to the Subordinated Notes and the Coupons remaining unconditionally and irrevocably guaranteed on a subordinated basis, in accordance with Condition 3, by the Guarantor, to the substitution of a Subsidiary or parent company or a successor in business (as defined in the Trust Deed) of the Issuer as principal debtor under the Trust Deed, the Subordinated Notes and the Coupons; or

(ii) to the substitution of the Guarantor in place of the Issuer (or of any previous substitute of the Issuer) as principal debtor under the Trust Deed, the Subordinated Notes and the Coupons; or

(iii) to the substitution of (a) a successor in business (as defined in the Trust Deed) of the Guarantor or (b) a Subsidiary or parent company 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 form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, the Subordinated Notes and the Coupons, 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 Subordinated Notes and the Coupons, as the principal debtor in place of the Issuer or (as the case may be) as the guarantor in place of the Guarantor or (as the case may be) of any previous Substitute Obligor, as the case may be;

(B) the Substitute Obligor certifies to the Trustee that (x) it has obtained all necessary governmental and regulatory approvals and consents necessary for its assumptions of the duties and liabilities as Obligor under the Trust Deed and the Subordinated Notes and the Coupons under such Subordinated Notes and Coupons in place of the Issuer or the Guarantor (as applicable) and (y) 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, without liability to any person, 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 sub-paragraph (A) above) the Trustee may, in the event of such substitution agree, without the consent of the Noteholders or Couponholders, to a change in the law governing the Trust Deed and/or the Subordinated Notes and/or the Coupons 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 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 or, as the case may be, addition to the references in that Condition and in Condition 6(d) to the Original Territory of references to the Substituted Territory whereupon the Trust Deed, the Subordinated Notes and the Coupons will be read and construed 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; and

(G) without prejudice to the rights of reliance of the Trustee under sub-paragraph (C) above, the Trustee shall be satisfied that the interests of the Noteholders will not be materially prejudiced by any substitution proposed pursuant to this Condition.

(d) Noteholders' rights

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) the Trustee shall have regard to the interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders whatever their number) and, in particular but without limitation, the Trustee shall not have regard to the consequences of such substitution for individual Noteholders or Couponholders (whatever their number) resulting from, in particular, 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 or Couponholder be entitled to claim, from the Issuer, the Trustee, the Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Noteholders and all Couponholders and, unless the Trustee agrees otherwise shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

12. Replacement of the Subordinated Notes and Coupons

Should any Subordinated Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 14) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Subordinated Notes or Coupons must be surrendered before any replacement Subordinated Notes or Coupons will be issued.

13. 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 any action unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, or any Subsidiary of the Issuer without accounting for any profit resulting therefrom. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the Auditors whether or not the same are addressed to the Trustee and whether or not they are subject to any limitation on the liability of the Auditors, whether by reference to a monetary cap or otherwise.

14. Notices

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 14.

15. Further Issues

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

16. Agents

The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents, provided that it and the Guarantor will:

(i) at all times maintain a Principal Paying Agent;

(ii) at all times maintain Paying Agents having specified offices in at least two major European cities approved by the Trustee; and

(iii) at all times maintain a Paying Agent (which, for the avoidance of doubt may include the Principal Paying Agent) having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be 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 to 27 November 2000 or any law implementing or complying with, or introduced to conform to such directive (so long as there is such a Member State).

17. Governing Law

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

18. Contracts (Rights of Third Parties) Act 1999

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

19. Definitions

In these Conditions:

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

"**Arrears of Interest**" has the meaning given to it in Condition 2(b);

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

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

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

"**Calculation Agent**" means either the Principal Paying Agent or such other agent as calculation agent in relation to the Subordinated Notes or its successor or successors for the time being appointed under the Paying and Calculation Agency Agreement;

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

"**Compulsory Interest Payment Date**" means every Interest Payment Date: (1) with respect to which a Regulatory Event has occurred and is continuing and the Issuer has notified the FSA that such an event has occurred; and (2) prior to which no breach by the Issuer, the Guarantor or any member of the Group of applicable Regulatory Capital Requirements has occurred and is continuing, or is reasonably likely to occur as a result of making the payment due on such Interest Payment Date;

"**Directors**" means the directors of the Issuer or of the Guarantor, as the context so requires;

"**Discretionary Interest Payment Date**" means every Interest Payment Date: (1) with respect to which a Regulatory Event has not occurred and is not continuing; or (2) prior to which a breach by the Issuer, the Guarantor or any member of the Group of applicable Regulatory Capital Requirements has occurred and is continuing, or is reasonably likely to occur as a result of making the payment due on such Interest Payment Date;

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

"**EEA Regulated Market**" means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

"**European Union**" means the European Union, established by the Treaty on European Union signed at Maastricht on 7th February 1992 (as amended by any later treaty) (the "**Treaty**"), which encompasses the 27 Member States that are signatories to the Treaty (and any new Member State that may accede to the European Union throughout the duration of this Agreement) and the supranational organisation known as the European Communities;

"**Existing Internal Regulatory Capital Instruments**" means any instrument or preference share capital issued by the Guarantor in respect of any on-loan from the Issuer to the Guarantor of the proceeds of the £500,000,000 6.292 per cent. Step-up Tier one Insurance Capital Securities of the Issuer (originally of Friends Provident plc (now re-named Friends Life FPL Limited) and Friends Provident Group plc (now renamed Friends Life FPG Limited)) having the benefit of a subordinated guarantee of the Guarantor and/or of the £300,000,000 6.875 per cent. Step-up Tier one Insurance Capital Securities of the Issuer (originally of Friends Provident plc (now re-named Friends Life FPL Limited) and Friends Provident Group plc (now re-named Friends Life FPG Limited)) having the benefit of a subordinated guarantee of the Guarantor;

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

"**Financial Services Authority**" or "**FSA**" means the Financial Services Authority and any of its successor regulatory authority or authorities as applicable having primary supervisory authority in prudential matters with respect to the Issuer and/or the Group;

"**First Reset Date**" has the meaning given to it in Condition 4(a);

"**FSA Handbook**" means the FSA Handbook of Rules and Guidance;

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

"**Group**" means the Issuer and its Subsidiaries;

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

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

"**Guaranteed Amounts**" means principal, interest and other sums expressed or deemed to be payable by the Issuer in respect of the Subordinated Notes and the Coupons and all other monies payable by the Issuer under or pursuant to the Trust Deed;

"**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 Subordinated Notes outstanding as at the date of the winding-up or administration of the Guarantor (as applicable);

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

"**Guarantor Junior Securities**" means ordinary shares in the capital of the Guarantor or other securities of the Guarantor ranking or expressed to rank junior to the Subordinated Notes but excluding (i) any Internal Subordinated Funding and (ii) for so long as they are outstanding, the Existing Internal Regulatory Capital Instruments;

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

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

"**Guarantor Pari Passu Securities**" means the most senior ranking class or classes of preference shares in the capital of the Guarantor from time to time and any other securities of the Guarantor ranking or expressed to rank *pari passu* with the Subordinated Notes as to rights to coupons or dividend payments and participation in the assets of the Guarantor in the event of liquidation but excluding (i) any Internal Subordinated Funding and (ii) for so long as they are outstanding, the Existing Internal Regulatory Capital Instruments;

"**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;

A "**Guarantor Regulatory Deficiency Interest Deferral Event**" is deemed to have occurred if:

(a) any Regulatory Capital Requirement applicable to the Guarantor is breached; or

(b) a Specified Regulatory Event has occurred and:

(i) the Solvency Capital Requirement applicable to the Guarantor, the Group or any insurance undertaking within the Group is 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 a guarantor or if it were treated as the issuer of the Subordinated Notes) to defer payment of interest in respect of the Subordinated Notes (in order that the Subordinated Notes could be classified as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions) and the FSA has not waived the requirement to defer payment of interest under the Subordinated Notes; or

(ii) the FSA has notified the Guarantor in writing that it has determined in accordance with the Relevant Rules at such time that the Guarantor must defer payment of interest in respect of the Subordinated Notes;

A "**Guarantor Regulatory Deficiency Redemption Deferral Event**" is deemed to have occurred if:

(a) any Regulatory Capital Requirement applicable to the Guarantor is breached; or

(b) a Specified Regulatory Event has occurred and:

(i) the Solvency Capital Requirement applicable to the Guarantor, the Group or any insurance undertaking within the Group is 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 a guarantor or if it were treated as the issuer of the Subordinated Notes) to defer or suspend repayment or redemption of the Subordinated Notes (in order that the Subordinated Notes could be classified as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions) and the FSA has not waived the requirement to defer or suspend repayment or redemption of the Subordinated Notes; or

(ii) the FSA has notified the Guarantor in writing that it has determined in accordance with the Relevant Rules at such time that the Guarantor must defer or suspend repayment or redemption of the Subordinated Notes;

"**Guarantor Senior Creditors**" means:

(a) any policyholders of the Guarantor (and, for the avoidance of doubt, the claims of Guarantor Senior Creditors 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) creditors of the Guarantor other than policyholders who are unsubordinated creditors of the Guarantor;

(c) other creditors of the Guarantor whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Guarantor (other than those whose claims constitute (or relate to a guarantee or other like or similar undertaking or arrangement given by the Guarantor in respect of any obligation of any other person which constitute) or would but for any applicable limitation on the amount of any such capital, constitute, Tier 1 Capital or are expressed to rank *pari passu* with, or junior to, the claims of the Noteholders); and

(d) creditors of the Guarantor in respect of Internal Subordinated Funding including, for so long as they are outstanding, the Existing Internal Regulatory Capital Instruments;

"**Guarantor Solvency Condition**" has the meaning given to it in Condition 3(e);

"**Insurance Groups Directive**" means Directive 98/78/EC of the European Union (as amended from time to time);

"**Insurance undertaking**" has the meaning given to it in the Insurance Groups Directive, the Solvency II Directive or their Relevant Rules;

"**Interest Determination Date**" means, in respect of the first Relevant Six-Year Period, the second Business Day prior to the First Reset Date and, in respect of each Relevant Six-Year Period thereafter, the second Business Day prior to the first day of each such Relevant Six-Year Period;

"**Interest Payment Date**" means 8 May and 8 November in each year, from (and including) 8 May 2013;

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

"**Interest Rate**" means the applicable interest rate, as set out in Condition 4;

"**Internal Subordinated Funding**" means any subordinated instrument or preference share capital issued at any time by the Guarantor to any Group issuer (the "**Subordinated Internal Guarantor Securities**") which constitutes, 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 Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) or Tier 1 Capital other than ordinary equity capital (but including preferred securities) (as the case may be) in respect of any on-loan from a Group issuer to the Guarantor of all or part of the proceeds of an issue of a subordinated instrument or preference share capital made by the Group issuer (the "**Funding Issue**") constituting, or which would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) or Tier 1 Capital other than ordinary equity capital (but including preferred securities) (as the case may be) of such Group issuer and guaranteed on a subordinated basis by the Guarantor provided that:

(i) any subordinated instrument or preference share capital issued in whole or in part by the Guarantor to replace the Subordinated Internal Guarantor Securities (whether by way of an exchange of securities or otherwise) shall be deemed to be Subordinated Internal Guarantor Securities; and

(ii) where the Funding Issue is replaced in whole or in part by any subsequent issue of a subordinated instrument or preference share capital of a Group issuer (whether by way of an exchange of securities or otherwise), the Subordinated Internal Guarantor Securities shall be deemed include any further subordinated instrument or preference share capital issued to a Group issuer in whole or in part to replace such Subordinated Internal Guarantor Securities and any such further subordinated instrument or preference shares shall be deemed to have been issued in respect of the Funding Issue;

"**Issue Date**" means 8 November 2012, being the date of the initial issue of the Subordinated Notes;

"**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 Subordinated Notes outstanding as at the date of the winding-up or administration of the Issuer (as applicable);

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

"**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;

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

"**Junior Creditors**" 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;

"**Junior Securities**" means ordinary shares in the capital of the Issuer or other securities of the Issuer ranking or expressed to rank junior to the Subordinated Notes;

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

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

"**Lower Tier 2 Capital**" has the meaning given to it by the FSA and shall following the implementation of Solvency II by the FSA or any other change in law or any Relevant Rules such that Lower Tier 2 Capital ceases to be a recognised tier of capital resources be deemed to be a reference to any Tier 2 Capital from time to time;

"**Margin**" means 6.828 per cent. per annum;

"**Market**" means the London Stock Exchange's EEA Regulated Market;

"**Modification Date**" has the meaning given to it in Condition 11;

"**Official List**" means the official list of the FSA;

"**Original Territory**" has the meaning given to it in Condition 11;

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

"**Pari Passu Securities**" means the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time and any other securities of the Issuer ranking or expressed to rank pari passu with the Subordinated Notes;

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

"**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 Subordinated Notes (as reasonably determined by the Issuer, and provided that (i) an opinion to such effect 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 by an independent investment bank of international standing and (ii) a certification to such effect, and in respect of the matters specified in (1) to (6) 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 (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Tier 2 Capital; (2) they shall include terms which provide for at least the same Interest Rate and the same Interest Payment Dates applying to the Subordinated Notes; (3) they shall rank senior to, or *pari passu* with, the Subordinated Notes; (4) such securities shall preserve any existing rights under these Conditions to any accrued interest, and any Arrears of Interest which have not been paid; (5) such securities shall provide for the same amounts to be payable on redemption as those applying to the Subordinated Notes; and (6) without prejudice to any provision equivalent to Condition 2 or 3 of the Subordinated Notes, such securities shall not include any provision which requires the write-off or write-down of any principal amount payable on such securities or conversion of such securities to equity; and

(b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed;

"**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;

"**Regulatory Capital Requirements**" means any applicable capital resources or capital adequacy requirement (including without limitation any such requirement pursuant to the Relevant Rules and any component which is required to be maintained in order to ensure adequate financial resources for the conduct of with-profits insurance business and taking into account applicable realistic reserving requirements) or applicable overall financial adequacy rule of the FSA as such requirement or rule is in force from time to time;

A "**Regulatory Deficiency Interest Deferral Event**" is deemed to have occurred if a Specified Regulatory Event has occurred and:

(a) the Solvency Capital Requirement applicable to the Issuer, the Group or any insurance undertaking within the Group is 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 Subordinated Notes (in order that the Subordinated Notes could be classified as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions) and the FSA has not waived the requirement to defer payment of interest under the Subordinated Notes; or

(b) the FSA has notified the Issuer in writing that it has determined in accordance with the Relevant Rules at such time that the Issuer must defer payment of interest in respect of the Subordinated Notes;

A "**Regulatory Deficiency Redemption Deferral Event**" is deemed to have occurred if a Specified Regulatory Event has occurred and:

(a) the Solvency Capital Requirement applicable to the Issuer, the Group or any insurance undertaking within the Group is breached and such breach is an event which under Solvency II and/or the Relevant Rules would require the Issuer to defer or suspend repayment or redemption of the Subordinated Notes (in order that the Subordinated Notes could be classified as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions) and the FSA has not waived the requirement to defer or suspend repayment or redemption of the Subordinated Notes; or

(b) the FSA has notified the Issuer in writing that it has determined in accordance with the Relevant Rules at such time that the Issuer must defer or suspend repayment or redemption of the Subordinated Notes;

A "**Regulatory Event**" is deemed to have occurred if as a result of any change to (or change to the interpretation by any court or authority entitled to do so of) the Insurance Groups Directive or its Relevant Rules; the implementation (or the interpretation by any court or authority entitled to do so) of Solvency II or its Relevant Rules; or any change to (or a change to the interpretation by any court or authority entitled to do so of) Solvency II or its Relevant Rules following their implementation: (a) the Subordinated Notes are no longer capable of counting; or (b) in the circumstances where such capability derives only from transitional or grandfathering provisions under the Insurance Groups Directive, Solvency II or the Relevant Rules, as appropriate, less than 100 per cent. of the principal amount of the Subordinated Notes outstanding at such time are capable of counting as either Tier 1 Capital or Tier 2 Capital for the purposes of the Issuer or the Group, whether on a solo, group or consolidated basis, except where such non qualification is only as a result of any applicable limitation on the amount of such capital (other than the limitation set out in (b) above);

"**Relevant Date**" means in respect of a payment the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14;

"**Relevant Issuer Event**" has the meaning given to it in Condition 3(b)(ii);

"**Relevant Rules**" means any legislation, rules or regulation (whether having the force of law or otherwise) in the UK or, if the FSA ceases to be the Supplementary Supervisor or ceases to be the Group Supervisor, in the jurisdiction of the Supplementary Supervisor or of the Group Supervisor, implementing the Insurance Groups Directive or, as applicable, the Solvency II Directive and includes the FSA Handbook and any amendment, supplement or replacement thereof from time to time relating to the characteristics, features or criteria of own funds or capital resources;

"**Relevant Six-Year Period**" has the meaning given to it in Condition 4(a);

"**Senior Creditors**" means:

(a) creditors of the Issuer who are unsubordinated creditors of the Issuer; and

(b) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute, or would but for any applicable

limitation on the amount of any such capital, constitute Tier 1 Capital or whose claims rank, or are expressed to rank *pari passu* with, or junior to, the claims of the Noteholders);

"**Six Year US Dollar Mid Swap Rate**" means the mid market swap rate for US dollar swap transactions with a maturity of six years displayed on Bloomberg page "ISDAFIX1" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Interest Determination Date. If such swap rate does not appear on that page, the Six-Year US Dollar Mid Swap Rate shall instead be determined by the Calculation Agent on the basis of (i) quotations provided by the principal office of each of four major banks in the US dollar swap market of the mid-swap rate in US dollar quoted by such banks at approximately 11.00 a.m. (New York time) on the Interest Determination Date to participants in the US dollar swap market for a six-year period and (ii) the arithmetic mean expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards) of such quotations. For this purpose, the mid-swap rate means in each case the arithmetic mean, rounded, if necessary, to the nearest 0.00001 per cent. (0.000005 per cent. being rounded upwards), of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to six years commencing on that Interest Determination Date, where the floating leg, calculated on an Actual/360 day count basis is equivalent to the three month London Interbank offered rate for U.S. dollars (where the terms "30/360 day count basis" and "Actual/360 day count basis" have the meanings given to the terms "30/360" and "Actual/360", respectively, in the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.);

"**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 of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and which must be transposed by member states of the European Economic Area pursuant to Article 309 of Directive 2009/138/EC;

"**Solvency II Implementation**" means the implementation or application of Solvency II in the UK;

"**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, the Solvency II Directive or the Relevant Rules;

A "**Specified Regulatory Event**" shall be deemed to have occurred if, on or after Solvency II Implementation less than 100 per cent. of the principal amount of the Subordinated Notes outstanding at such time is capable of counting (taking into account any transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate) as Tier 1 Capital for the purposes of the Issuer or the Group, whether on a solo, group or consolidated basis;

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

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

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

"**Substituted Territory**" has the meaning given to it in Condition 11;

"**Supplementary Supervisor**" means the competent authority exercising supplementary supervision over the solvency of the Group in accordance with the Insurance Groups Directive;

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

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

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

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

"**Total Guarantor Interest Amount**" means the aggregate of (i) interest accrued (but unpaid) on the Subordinated Notes from the last Interest Payment Date preceding the winding-up or administration of the Guarantor (as applicable) to the date of the winding-up or administration of the Guarantor (as applicable) and (ii) Arrears of Interest;

"**Total Issuer Interest Amount**" means the aggregate of (i) interest accrued (but unpaid) on the Subordinated Notes from the last Interest Payment Date preceding the winding-up or administration of the Issuer (as

applicable) to the date of the winding-up or administration of the Issuer (as applicable) and (ii) Arrears of Interest;

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

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

"**UK Listing Authority**" means the Financial Services Authority in its capacity as competent authority for the purposes of FSMA or any successor authority or authorities appointed as the competent authority for the purposes of FSMA or otherwise;

"**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland;

"**Upper Tier 2 Capital**" has the meaning given to it by the FSA from time to time; and

"**US$**" means the lawful currency of the United States.

PROVISIONS RELATING TO THE SUBORDINATED NOTES WHILE IN GLOBAL FORM

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

Exchange

The nominal amount of the Subordinated Notes shall be the aggregate amount from time to time entered in the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system approved by the Trustee (the "**Alternative Clearing System**") (each a "**relevant Clearing System**"). The records of such relevant Clearing System shall be conclusive evidence of the nominal amount of Subordinated Notes represented by the Temporary Global Note and the Permanent Global Note and a statement issued by such relevant Clearing System at any time shall be conclusive evidence of the records of that relevant Clearing System at that time.

The Subordinated Notes will be represented initially by a Temporary Global Note in bearer form, which will be deposited outside the United States with a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant Clearing System on or about the Issue Date. The Temporary Global Note will be exchangeable in whole or in part (free of charge to the Noteholder) for interests recorded in the records of the relevant Clearing Systems in a Permanent Global Note in bearer form on or after a date which is expected to be 18 December 2012 (the "**Exchange Date**"), upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global Note.

If any date on which payment is due on the Subordinated Notes occurs prior to the Exchange Date, the relevant payment will be made on the Temporary Global Note only to the extent that certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations has been received by Euroclear or Clearstream, Luxembourg. Payments of amounts due in respect of the Permanent Global Note will be made through Euroclear or Clearstream, Luxembourg without any need for certification.

The holder of the Temporary Global Note shall not (unless, upon due presentation of the Temporary Global Note for exchange (in whole or in part) for interests in the Permanent Global Note, such exchange is improperly withheld or refused) be entitled to receive any payment in respect of the Subordinated Notes represented by the Temporary Global Note which falls due on or after the Exchange Date.

Interests in the Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Subordinated Notes only:

(a) upon the happening of any of the events defined in the Trust Deed as "Events of Default";

(b) if a relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of public holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) at any time at the option of the Issuer, by the Issuer giving notice to the Principal Paying Agent and the holders, of its intention to exchange this Permanent Global Note for definitive Subordinated Notes on or after the Exchange Date specified in the notice.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Subordinated Notes on or after the Permanent Global Exchange Date (as defined below).

On or after the Permanent Global Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Subordinated Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Subordinated Notes.

"**Permanent Global Exchange Date**" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

Payments

All payments in respect of the Global Note shall be paid to its holder. The Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant Clearing System and, in the case of payments of principal, the nominal amount of the Subordinated Notes will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing System shall not affect such discharge.

Notices

For so long as all of the Subordinated Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held in a relevant Clearing System, notices to Noteholders may be given by delivery of the relevant notice to that relevant Clearing System for communication to the relative Accountholders rather than by publication as required by Condition 14.

Prescription

Claims against the Issuer and the Guarantor in respect of principal and interest on the Subordinated Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 20).

Purchase and Cancellation

On cancellation of any Subordinated Note represented by a Global Note which is required by the Conditions of the Subordinated Notes to be cancelled, the Issuer shall procure that details of such cancellation shall be entered *pro rata* in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Subordinated Notes recorded in the records of the relevant Clearing Systems and represented by this Global Note shall be reduced by the aggregate nominal amount of the Subordinated Notes so cancelled. Subordinated Notes may only be purchased by the Issuer or the Guarantor or any of their respective subsidiaries if (where they should be cancelled in accordance with the Conditions) they are purchased together with the right to receive all future payments of interest thereon.

Eurosystem Eligibility

The Subordinated Notes will be issued in New Global Note form. This means that the Subordinated Notes are intended to be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg (each acting in its capacity as International Central Securities Depository) and does not necessarily mean that the Subordinated Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem, either upon issue or at all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria established by the European Central bank from time to time.

THE FRIENDS LIFE BUSINESS

Overview

Friends Life is a leading insurance business which provides a range of pension, investment and insurance products and services for individual customers and commercial businesses. Friends Life, whose origins can be traced back to 1810, has over five million customers and, as at 30 June 2012, Friends Life's UK business managed funds of over £86 billion on behalf of its customers. Friends Life operates from eight countries around the world, namely the UK, Germany, Luxembourg, United Arab Emirates, Singapore, Hong Kong, Malaysia and the Isle of Man, and has over 3,500 employees. Friends Life was the 5th largest life and pensions company in the UK market in 2011 based on premium income.

Friends Life was formed by the integration of three businesses acquired under the banner of Resolution Limited's restructuring project in the UK life and asset management sectors (the "**UK Life Project**"): Friends Provident, the AXA UK Life Business, and Friends Life BHA Limited (formerly known as Bupa Health Assurance Limited, "**BHA**").

The Issuer acquired Friends Provident on 4 November 2009 by the acquisition of Friends Life FPG Limited (formerly Friends Provident Group plc).

On 15 September 2010, the Issuer purchased the entire issued share capital of Friends ASLH Limited (formerly AXA Sun Life Holdings Limited), as part of the acquisition of the AXA UK Life Business. The Friends Life group and AXA UK subsequently implemented a plan agreed at the time of the acquisition of the AXA UK Life Business, designed to re-allocate certain portfolios of insurance business between them and, on 30 November 2011, the final step was completed with the transfer of the entire issued share capital of Friends Life WL Limited (formerly Winterthur Life UK Limited) ("**FLWL**"), to the Issuer and then on to the Guarantor.

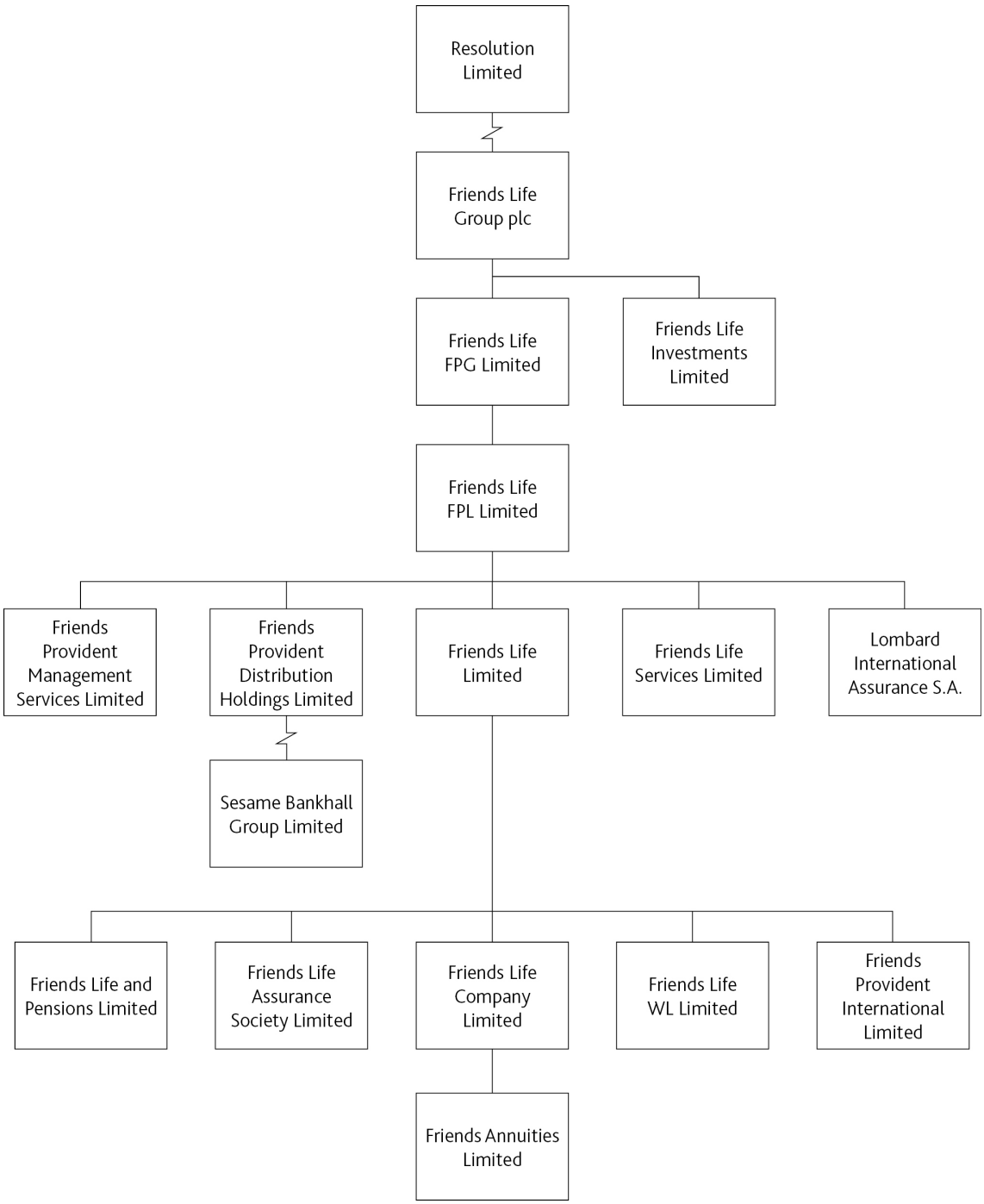
The business and shares of BHA were acquired by the Guarantor on 31 January 2011.

In August 2012 Resolution Limited announced that further acquisitions for the Friends Life group will no longer be sought.

Organisational structure

Friends Life Group plc, the Issuer, is the holding company of the Friends Life group. The Issuer is a subsidiary undertaking of Resolution Limited, whose shares are admitted to trading on the London Stock Exchange's main market for listed securities. Resolution Limited holds the Issuer indirectly through Resolution Holdco No 1 LP (of which it is the general partner and holds a 99.9 per cent. capital interest) and Resolution Holdings (Guernsey) Limited, which owns 100 per cent. of the Issuer. A simplified organisational structure chart is set out on page 72 of this Prospectus.

The following chart shows, in simplified form, the organisational structure of the Friends Life group, as at the date of this Prospectus, and its ultimate parent company, Resolution Limited:



Strategy

The Friends Life group's business model and strategy are designed to create a UK life insurance group with a clear and strong cash profile, focused on developing the Friends Life group as a profitable and sustainable company which delivers competitive products and services to customers and value to Resolution Limited's shareholders.

Friends Life's strategy is focused on the delivery of the following core objectives:

- Writing new business which provides attractive returns on capital. This will be judged by reference to an internal rate of return on new business (being the discount rate at which the present value of the after-tax cash flows expected to be earned over the lifetime of the business written is equal to the capital invested to support the writing of the new business, taking into account the funding and release of regulatory capital requirements). In pursuit of this strategy, for the UK Life and Pensions Business Friends Life has created a UK business unit focussed on three key business lines: Protection, Corporate Benefits and Retirement Income (the "**UK Business**").

- Delivering synergies from the integration of businesses acquired through achieving targeted annual cost savings.

- Managing the requirements of customers with products that are no longer actively marketed, alongside those with legacy products which have previously been closed to new business, in particular through the creation in 2011 of the Heritage business unit (the "**Heritage Business**") with its own dedicated management team.

- Across the Friends Life group as a whole, generating a targeted amount of cash and capital (excluding investment variances and one-off costs) that could be released from the business each year without reducing the capital base of the Issuer, after meeting interest costs.

Operational structure

Friends Life operates in the UK and in a number of overseas markets and is managed and reported on in three distinct segments. These are:

- the UK Life and Pensions Business segment, comprising the UK Business (Protection, Corporate Benefits and Retirement Income), the Heritage Business and the UK distribution business Sesame Bankhall;

- the International segment, comprising Friends Provident International Limited ("**FPIL**"), Overseas Life Assurance Business ("**OLAB**"), Financial Partners Business AG ("**fpb**"), and the Friends Life group's share of AmLife Insurance Berhad ("**AmLife**") and AmFamily Takaful Berhad ("**AmFamily**"); and

- the Lombard segment, comprising Luxembourg-based Lombard International Assurance S.A., and related companies, a life assurance business specialising in tax and estate planning solutions for high net worth individuals.

In total, across the Friends Life group, Annual Premium Equivalent ("**APE**") new business for the first half of 2012 amounted to £613 million, with £414 million attributable to the UK Life and Pensions Business, £104 million attributable to International and £95 million attributable to Lombard.

UK Life and Pensions Business (including Sesame Bankhall)

Introduction

This operating segment comprises the UK life and pensions businesses brought together through the acquisition of Friends Provident, the AXA UK Life Business and BHA.

Friends Provident has its origins in a business founded by Quakers in 1832, and offered a range of protection, pensions and savings and investments products in the UK life and pensions markets. The AXA UK Life Business comprised the majority of the AXA UK Life and Savings Business, which was originally formed in 1997, but can trace its roots to the founding of the Sun Life Assurance Society in 1810. BHA was a provider of protection products in the UK. In March 2011, the Friends Life brand was launched in order to integrate and rebrand these acquired businesses under the Friends Life name.

New UK Life and Pensions Business activity is centred on the three business lines of the UK Business: Protection, Corporate Benefits and Retirement Income.

Sesame Bankhall is the Friends Life group's UK distribution business. Sesame Bankhall has an active relationship with financial advisers throughout the UK, providing services including regulatory and compliance support, training, research and technology. Sesame Bankhall appointed representatives and member firms provide financial advice and distribute a wide range of investment, protection, mortgage and general insurance products.

Heritage Business

In 2011, Friends Life created the Heritage Business. This business unit includes most of the customers, assets and embedded value of the Friends Life group's UK Life and Pensions Business and will manage the requirements of customers with products that are no longer being actively marketed.

The scale of the Heritage Business is significant and it forms the bulk of the UK Life and Pensions Business in terms of customers, assets under management and embedded value. It has over four million customers, a large set of products which are either closed to new business or not actively marketed and complex legacy systems. As a result, the strategy of the Heritage Business is fundamentally different from the UK Business. The products within the scope of the Heritage Business include all WP business; some individual pensions business; savings products such as investment bonds; and certain legacy protection, corporate schemes and annuity products. The policies managed by the Heritage Business were sold over many years under a number of different brands, including Friends Provident, UK Provident, NM Financial Management, London & Manchester, Sun Life, AXA Equity & Law, Winterthur Life, PPP Lifetime Care and Provident Life. Modest new business continues to be written in the Heritage Business. This new business arises through IFAs, sales to existing customers, increments to existing policies and new entrants to existing corporate pension schemes.

Strategy

The Heritage Business aims to be the UK's leading legacy business manager, with the knowledge and expertise to maximise the value created from the closed funds. Since the formation of the Heritage Business, Friends Life established a dedicated management team focused on this business. The Heritage Business has adopted the following strategies:

Outsourcing: Management of the underlying cost base is critical to cash generation and the profitability of the Heritage Business. A substantial policy administration and IT outsourcing agreement with Diligenta was signed in November 2011 and became effective on 1 March 2012. This outsourcing agreement, together with the ongoing outsourcing arrangement with Capita, mean that substantially all of the policy administration in the Heritage Business is outsourced. These outsourcing transactions provide the basis for the Heritage Business to reduce its administration costs in line with the run-off of the Heritage Business. They also extend and contractually secure much of the synergies which arise from the combination of Friends Provident and the AXA UK Life Business, such as IT and customer service integration.

Building an in-house asset manager: Building in-house asset management capability supports the aim of running to an efficient cost base as Friends Life expects that assets can be managed more efficiently than through the existing external management arrangements. Friends Life's in-house asset management capability was launched in mid-2012 through the creation of Friends Life Investments Limited ("**FLI**") with £6 billion of fixed interest assets under management. The Friends Life group had existing expertise in the management of fixed income assets and this expertise was further augmented with the recruitment of a fixed income team in January 2012. To assist in minimising the additional headcount, the middle and back office support functions of FLI are wholly outsourced. FLI has continued to grow with a recapture of £3 billion of assets undertaken in September 2012. The current phase of development is focused on the recapture of the core non-linked and shareholder assets of the Friends Life group. Subsequent phases are expected to focus on fixed income assets currently managed in the Friends Life group's with-profits and unit-linked funds.

Implementing the capital optimisation programme (the "COP"): Friends Life is part of the way through a capital optimisation programme to simplify the legal structure of the business and remove capital inefficiencies. This programme is further described in the section of this Prospectus entitled "*Recent developments – Capital optimisation*". There are five UK life companies within the Friends Life group and the ultimate result of the COP is to reduce the number of UK life companies and broadly align them to the Heritage Business and UK Business lines. A programme to develop and implement a uniform risk management framework for the six with-profits funds within the Heritage

Business is currently underway. This programme is closely linked to the COP, as a number of with-profits funds are included in the planned COP transfers of business.

UK Business

Protection

The Protection business brings together the Friends Provident individual and group protection businesses with those acquired from the AXA UK Life Business and BHA, resulting in the Protection business having a significant scale in the market. The Protection business offers a comprehensive range of individual and group protection products. The individual Protection business provides life, critical illness and income protection cover to individuals and businesses. The individual protection products are distributed through IFAs, banks, building societies, estate agents and other strategic partnerships. The group Protection business provides group income protection, group life and group critical illnesses products which enable corporate clients to make provisions for their employees. The group protection products are distributed through EBCs and IFAs.

Strategy

Friends Life operates a value-based proposition competing on product quality rather than price.

The focus of the Protection business is on writing profitable new business by concentrating on selective distribution channels and products which provide an attractive rate of return. The BHA platform was chosen as the strategic platform for the Protection business given its lower cost and greater efficiency relative to the Friends Life group's other platforms and in July 2011, all group Protection new business was successfully migrated to this platform. In October 2011, a new integrated single proposition to the IFAs known as Friends Life Protect+ was launched for the individual Protection business using the BHA platform. The transition to this strategic platform has continued in 2012 with distribution partners encouraged to migrate onto this platform during the course of 2012.

Corporate Benefits

The Corporate Benefits business offers both pensions products and savings solutions for customers in the workplace savings market. Pension products offered by the Corporate Benefits business include group personal pensions, group self-invested pension plans and group contracted in money purchase pension plans. The new corporate wrap platform called "My Money" launched in January 2012. Products are distributed through IFAs and EBCs.

The Corporate Benefits business is being built on the New Generation Pension ("**NGP**") platform and new corporate wrap platform. As at 30 June 2012, Corporate Benefits administered £15.8 billion of assets.

Strategy

The Corporate Benefits business will seek to make selective acquisitions of new pension schemes driven by a limited number of key distribution relationships in Friends Life's target market. Within this, the focus is on mid to large schemes where Friends Life expects to be able to achieve the target returns and most efficiently deploy the new business team. Having already restructured its distribution function, Friends Life is continuing work on building a lean front-office business. In addition, the migration of assets on to the NGP platform is expected to reduce operational costs further, as is the outsourcing arrangement with Diligenta (please see the section entitled "*General Information - Material contracts"* on pages 107 to 109 of this Prospectus).

Retirement Income

Friends Life offers annuities, whereby policyholders pay a single initial premium and receive regular payments. Lifetime annuities are bought with the proceeds of a vesting pension policy on retirement. As at the date of this Prospectus, the Friends Life group generates its Retirement Income business almost entirely from lifetime annuity sales to retiring Friends Life pension policyholders. The Retirement Income business does not currently actively compete in the bulk annuity market or the open market option ("**OMO**") segment for individual annuities. The OMO comprises policyholders who wish to select an annuity from a provider other than their existing pension provider.

Strategy

Friends Life has started to implement a strategy which focuses on building the enhanced range of capabilities needed to increase retention of pensions. Friends Life is building its capability in pricing and underwriting and investment management with a view to creating a more sophisticated proposition to retiring policyholders and to entering the OMO.

Implementation of the strategy will focus on:

- developing sophisticated pricing and underwriting capabilities;
- optimising the investment strategy for assets in respect of annuity business;
- providing a broader product proposition;
- improving customer engagement; and
- developing capabilities to support OMO offering.

Sesame Bankhall

Sesame Bankhall was formed in 2009. It brings together one of the largest appointed representative networks in the UK, a leading support service provider in the UK and a mortgage club to create one of the UK's largest distributors of retail financial advice. The Sesame Bankhall group operates three brands: Sesame, Bankhall and Premier Mortgage Service.

- Sesame offers an array of core regulatory services as well as business development, marketing and study support to IFAs.
- Bankhall is a support service provider for directly regulated IFAs.
- Premier Mortgage Service is a mortgage club for directly regulated mortgage brokers in the UK.

In March 2012, Sesame Bankhall was named Best Network for the second successive year at the Mortgage Strategy Awards 2012.

International

Introduction

The International segment comprises:

- FPIL, an Isle of Man-based company;
- OLAB, the overseas branch business of the Guarantor, benefiting from EU freedom of services rules which allow regulated EU insurers to trade anywhere within the EU;
- fpb, a German distributor of OLAB unit-linked pensions business;
- a 30 per cent. interest in AmLife, a Malaysian life insurance company, majority owned by AmBank Berhad, a major Malaysian banking group; and
- a 30 per cent. interest in AmFamily which was established in December 2011 as a Malaysian family takaful business.

The International segment offers a range of products including single lump sum investment products, regular savings plans and individual assurance policies in Europe, Asia and the Middle East.

FPIL is the main component of the International business, manufacturing unit-linked regular contribution savings and single premium bond products with a focus on affluent expatriate individuals via distribution hubs in Hong Kong, Singapore and Dubai. FPIL's products are distributed worldwide by IFAs.

fpb is a wholly-owned distribution business responsible for the German distribution of products, largely unit-linked regular contribution pensions savings, manufactured in the overseas branches of the UK operating companies.

AmLife offers life assurance and wealth protection policies in Malaysia, whilst AmFamily offers protection, investment-linked savings and pensions products in Malaysia in accordance with Islamic finance principles.

Strategy

The International business is currently in the process of a strategic review, the results of which will be announced before the end of 2012. The Friends Life group's interests in AmLife and AmFamily are potentially to be sold in the near future.

Lombard

Lombard is a pan-European life assurance business specialising in compliant estate planning solutions for high and ultra-high net worth individuals ("**HNWIs**"). Based in Luxembourg, Lombard offers innovative solutions and superior service, through a well-established distribution network of private banks, high-end IFAs and independent specialist financial advisers to HNWIs across Europe and selected markets in Latin America and Asia. Solutions offered by Lombard are typically based on single premium, whole of life, unit-linked life assurance structures with the majority of life exposure reinsured.

Strategy

An in-depth review began in April 2012 to define Lombard's development and growth strategy. Lombard will continue to pursue a number of key sales initiatives currently underway, including the development of new products for selected core markets and the conclusion of revised strategy plans with key distribution partners. As a fundamental part of the company's transformation, Lombard has announced substantial investment in the business, in the form of strategic development plans. These will focus on improvements in back-office efficiency and the introduction of system upgrades taking advantage of new technology. An update on Lombard's strategic plans will be announced before the end of 2012.

Recent Developments

Simplification of governance structure

In August 2012, Resolution Limited announced a number of changes to its governance structures reflecting its belief that shareholder value from the UK Life Project can now best be delivered by moving from a project-based structure to a simplified governance structure. The announced changes included streamlining the boards of the Issuer and Resolution Limited to include individuals from both current boards.

On 19 October 2012, Resolution Limited further announced that the following individuals will sit on the boards of the Issuer and of Resolution Limited:

- Mike Biggs, Non-Executive Chairman
- Sir Malcolm Williamson, Non-Executive Deputy Chairman
- Andy Briggs, Group CEO
- Tim Tookey, Group CFO
- David Allvey, Independent Non-Executive Director
- Mel Carvill, Independent Non-Executive Director
- Clive Cowdery, Non-Executive Director
- Peter Gibbs, Independent Non-Executive Director
- Phil Hodkinson, Independent Non-Executive Director
- Nick Lyons, Independent Non-Executive Director

- Robin Phipps, Independent Non-Executive Director
- Belinda Richards, Independent Non-Executive Director
- Karl Sternberg, Independent Non-Executive Director
- John Tiner, Non-Executive Director
- Tim Wade, Independent Non-Executive Director

The Issuer and Resolution Limited also expect to appoint an additional independent non-executive director, not drawn from either of the existing boards, in due course.

The changes to the boards remain subject to approval of Resolution Limited shareholders (which is expected to be sought during the first quarter of 2013), but are expected to take effect immediately following such shareholder approval. David Hynam, Gerhard Roggemann, Derek Ross and Mary Phibbs will then retire from the board of the Issuer.

Mike Biggs has informed Resolution Limited of his decision to step down as Chairman once the transition has been completed. Resolution Limited has commenced an appointment process for both the new chairman and the additional independent non-executive director.

Senior management changes

The appointment of Jonathan Moss as CEO of the Heritage Business was announced in August 2012, and he joined Friends Life in September 2012.

A new role of CEO of the UK Business was created in March 2012. This position was filled internally by David Hynam.

Capital optimisation

In order to generate further capital efficiencies, and with the aim of consolidating its business into a smaller number of operating companies, Friends Life is undertaking a number of Part VII Transfers to move business from some of its life companies into the Guarantor. The following businesses were transferred into the Guarantor in December 2011:

(a) all of the long-term business in BHA;

(b) all of the long-term business of Friends Provident Life Assurance Limited; and

(c) certain of the long-term business of Friends Life and Pensions Limited.

Further Part VII Transfers are planned for December 2012. Policyholder communications were commenced in August 2012 ahead of planned transfers of business into the Guarantor, including:

(a) all of the long-term business in Friends Life Assurance Society Limited; and

(b) most of the long-term business in Friends Life Company Limited.

International

The current expectation is that each of FPIL and Lombard will (subject to applicable regulatory approvals) be transferred, by means of an internal reorganisation, to become direct subsidiaries of Friends Life and Pensions Limited. It is currently envisaged that this reorganisation will occur before the end of 2012.

Protection distribution

In March 2012, a new tripartite partnership between Friends Life, Sesame Bankhall group and Connells came into force. The arrangement encompasses a single tie arrangement between Friends Life and Connells as well as a long-term partnership between Sesame Bankhall group and Connells.

Friends Life Investments

Friends Life is developing internal asset management capabilities and launched its new asset management company in July 2012. The immediate focus of this in-house asset manager will be on fixed-income assets backing annuity business, and on shareholder funds. £6 billion of assets were moved in-house in July 2012 and a further £3 billion in September 2012.

Outsourcing

On 8 November 2011 the Issuer entered into a substantial outsourcing agreement with Diligenta. This 15-year contract, effective from 1 March 2012, outsources to Diligenta the Friends Life group's policy administration and IT services for WP, annuity, legacy protection and UK wealth business lines. Considering existing outsourcing contracts, the policy administration and IT services of the Heritage Business will as a result be substantially outsourced to third-party service providers. The agreement also covers IT service outsourcing for the Corporate Benefits, Protection and International businesses. For more information, see the section of this Prospectus entitled "*General Information – Material Contracts*".

Completion of rebranding

The rebranding of the acquired UK companies was completed in May 2012 with the renaming of the most recently acquired operating company, Winterthur Life UK Limited, to Friends Life WL Limited.

Interim dividend

On 24 September 2012, the Issuer paid an interim dividend of £100m to its immediate parent company, Resolution Holdings (Guernsey) Limited.

DESCRIPTION OF THE ISSUER AND THE GUARANTOR

The Issuer was incorporated and registered in England and Wales on 10 August 2009 under the Companies Act 1985 as a private company limited by shares with registration number 06986155. On 30 September 2010, the Issuer was re-registered as a public limited company. As a subsidiary undertaking of Resolution Limited, the Issuer is part of the RSL Group and is the holding company of the Friends Life group.

The Guarantor was incorporated and registered in England and Wales on 25 October 2000 under the Companies Act 1985 as a private company limited by shares with registration number 04096141. The Guarantor is itself a regulated operating company for UK life and pensions business and owns the other major UK operating life companies in the Friends Life group.

The registered office of both the Issuer and the Guarantor is at Pixham End, Dorking, Surrey RH4 1QA, United Kingdom. The telephone number of the registered office is 0845 641 7825 (or +44 1306 871825 from overseas).

The principal legislation under which both the Issuer and the Guarantor operate and under which the Subordinated Notes have been created is the Companies Act 2006 and regulations made thereunder.

Directors of the Issuer

The Issuer's directors, a majority of whom are non-executive, are listed below. The business address of each director of the Issuer is Pixham End, Dorking, Surrey, RH4 1QA, United Kingdom.

The Issuer is committed to maintaining a majority of independent non-executive directors on its Board. The Board's composition is kept under review with a view to maintaining this balance as additional executive appointments are made.

Please see the section of this Prospectus entitled "*The Friends Life Business - Recent developments - Simplification of governance structure*" for details of expected changes to the Board announced in August and October 2012.

Sir Malcolm Williamson, non-executive Chairman, aged 73

Sir Malcolm Williamson was appointed a director of the Issuer on 5 November 2009 and Chairman on 9 February 2010. He is Chairman of the Issuer's Remuneration Advisory Group. Sir Malcolm is also Chairman of Cass Business School's Strategy & Development Board and Invicta Card Services Limited, Chairman of the Board of Trustees for The Prince of Wales Youth Business International Limited and a member of the Board of Trustees for Youth Business America.

He was previously Chairman of Clydesdale Bank plc, National Australia Group Europe Limited, Signet Jewellers Limited, CDC Group plc and Britannic Group plc. He was Deputy Chairman of Resolution plc and a non-executive director of G4S plc, JPMorgan Cazenove Holdings, National Grid Group plc and National Australia Bank Limited and a member of the Board of Trustees for the International Business Leaders Forum.

Sir Malcolm worked for Barclays Bank PLC from 1957 to 1985. He was then appointed a member of the Post Office Board and Managing Director of Girobank plc. In 1989, he joined Standard Chartered PLC and became Group Chief Executive. In 1998 he moved to San Francisco, USA, as President and CEO of Visa International until 2004.

Andy Briggs, Group Chief Executive Officer, aged 46

Andy Briggs was appointed as a director and Group Chief Executive Officer of the Issuer on 1 June 2011. He is also a director of the Association of British Insurers.

He was formerly Chief Executive Officer of Lloyds Banking Group's General Insurance business from February 2010 and Chief Executive Officer of Scottish Widows from December 2008. Prior to joining Scottish Widows in 2007, he held key positions at Prudential Group where he spent a number of years in intermediated, face-to-face and online businesses in the UK and overseas culminating in the role of Chief Executive Officer of Prudential's Retirement Income business.

Andy is an actuary and graduated in mathematics from Southampton University.

David Hynam, executive director, aged 41

David Hynam was appointed as an executive director of both the Issuer and the Guarantor on 15 September 2010. On 8 October 2012, David was appointed as CEO of the UK Division. Prior to this he was Chief Operating Officer of the Friends Life group. David is also a director of Friends Life FPG Limited, Friends Life FPL Limited and various other companies within the Friends Life group. David was Group Chief Operating Officer of AXA UK plc between 2008 and 2012, having previously been Chief Operating Officer of AXA Sun Life. As part of his previous role in AXA Sun Life he was also Managing Director of the Traditional Business prior to the outsourcing of the administration of those policies to Capita and a member of the Board of Friends ASLH Limited and its subsidiaries.

David joined AXA in 2001 from Barclays where he was Chief Operating Officer of the Offshore Wealth business and prior to that, Operations Director for the London retail branch network. He joined Barclays in 1992 from the University of Kent at Canterbury where he graduated in Public Administration and Management with first class honours.

Tim Tookey, Chief Financial Officer, aged 50

Tim Tookey was appointed as an executive director of the Issuer on 5 March 2012 and Chief Financial Officer on 30 March 2012. Tim is also a member of the Development Strategy Board of the Zoological Society of London.

Tim joined Friends Life from Lloyds Banking Group, where he started as Deputy Group Finance Director in 2006 before being appointed Group Finance Director in 2008. Previous roles include Chief Financial Officer at Prudential UK, which he joined in 2002 and Chief Financial Officer at Heath Lambert from 1999 and Heath Group from 1996.

Having graduated from Bath University with a degree in Building Engineering, Tim joined KPMG in 1985 where he qualified as an accountant. Tim was also Chairman of the Audit and Remuneration Committees at the British Bankers' Association (BBA) until 3 April 2012.

Karl Sternberg, independent non-executive director, aged 43

Karl Sternberg was appointed as an independent non-executive director of the Issuer on 20 May 2010 and is Chairman of the Investment Oversight Committee. He is Chairman of JP Morgan Income & Growth Trust plc, a founding partner of Oxford Investment Partners Limited and a director of Lowland Investment Company plc. Karl is a member of the Governing Body of Christ Church, Oxford.

Karl was a non-executive director of Whitbread Pension Trustees until July 2011. Karl has wide financial experience. After spending his early career at Mercury Asset Management and Barclays de Zoete Wedd, he worked at Morgan Grenfell / Deutsche Asset Management for 12 years where he held a number of chief investment officer roles in different regions.

Belinda Richards, independent non-executive director, aged 54

Belinda Richards was appointed as an independent non-executive director of the Issuer on 1 June 2010 and is a member of the Board Risk and Compliance Committee. Belinda is also a non-executive director of Grainger Plc, where she sits on the Audit and Remuneration Committees and is Chairman of the Risk and Compliance Committee.

She was previously Vice Chairman of Deloitte LLP, where she was a senior Corporate Finance partner for ten years, and the Global Head of Merger Integration and Separation Advisory Services, a position she held until May 2010 when she retired from the role. Her clients at Deloitte included a number of leading UK and global banks and insurance companies.

Robin Phipps, independent non-executive director, aged 61

Robin Phipps was appointed as an independent non-executive director of the Issuer on 5 November 2009, having been a director of Friends Provident plc since November 2008. Robin is Chairman of the With Profits Committees and a member of the Audit and Board Risk and Compliance Committees. He is also a non-executive director of the Partnership Group of Companies and of IFG Group plc.

Between 1982 and 2007 Robin held various senior roles at Legal & General, latterly as Group Director UK. He was an executive director of Legal & General Group plc from 1996 to 2007. Prior to 1982, he held various roles in IT with South Eastern Gas Board.

Mary Phibbs, independent non-executive director, aged 55

Mary Phibbs was appointed as an independent non-executive director of the Issuer on 27 July 2011 and is a member of the Board Risk and Compliance Committee. Mary is also a non-executive director/trustee and Chairman of the Nominations and Remuneration Committee at The Charity Bank Limited and a non-executive director of Stewart Title Limited.

Mary is a chartered accountant with over 30 years of experience in financial services across the UK, Australia and Asia Pacific. Mary joined Standard Chartered Bank plc in 2008 after holding a number of senior positions at companies including ANZ, National Australia Bank and Commonwealth Bank of Australia. More recently she was Interim Chief Risk Officer at Allied Irish Banks plc and a non-executive director and member of the Audit and Risk Committees at Northern Rock plc, from January 2010 to December 2011 during its period of temporary public ownership.

Mary is a chartered accountant with over 30 years of experience in financial services across the UK, Australia and Asia Pacific.

Nick Lyons, independent non-executive director, aged 53

Nick Lyons was appointed an independent non-executive director of the Issuer on 1 February 2010. He is a member of the Audit Committee, the Board Risk and Compliance Committee, the Investment Oversight Committee and the Remuneration Advisory Group. Nick is also Chairman of Longbow Capital LLP and Miller Insurance Services LLP and a non-executive director of Catlin Group Limited, Quayle Munro Holdings plc, Miller Insurance Holdings Limited and Miller 2012 Limited.

Nick was formerly a Managing Director of Lehman Brothers in London, where he headed the European Financial Institutions Group and was a member of the European Operating Committee. Prior to joining Lehman Brothers, he held executive positions at JP Morgan & Co and Salomon Brothers in London. Nick was also previously Chairman of Miller Insurance Investments Limited.

Peter Gibbs, independent non-executive director, aged 54

Peter Gibbs was appointed as a non-executive director of the Issuer on 15 July 2011 and is a member of the Investment Oversight Committee. Peter was appointed Chairman of Friends Life Investments Limited on 11 May 2012. He is a non-executive director of Impax Asset Management Group plc, UK Financial Investments Limited (UKFI) and Intermediate Capital Group plc and a director of Merrill Lynch (UK) Pension Plan Trustees Limited.

He began his career at Brown Shipley and joined Bankers Trust in 1985, moving to Mercury Asset Management in 1989. Following their takeover by Merrill Lynch, he became Chief Investment Officer and Head of Region for their non-US Investment Management activities until November 2005. Peter was Senior Independent non-executive director of The Evolution Group plc, and a member of its Audit, Remuneration and Nomination Committees until its successful takeover by Investec plc in December 2011. Peter also held the position of non-executive Chairman of Turquoise, the pan-European trading platform, until its takeover by the London Stock Exchange in February 2009.

Peter has a wealth of financial services experience in the asset management sector.

David Allvey, Senior Independent Director, aged 67

David Allvey was appointed as an independent non-executive director of the Issuer on 5 November 2009 and Senior Independent Director in November 2010. David is Chairman of the Audit Committee and a member of the Board Risk and Compliance Committee and the Remuneration Advisory Group of the Issuer. He is also Chairman of Costain Group plc and Arena Coventry Limited and an independent director of Clydesdale Bank plc and National Australia Group Europe Limited.

A Chartered Accountant, David has held positions in major international businesses including Group Finance Director for BAT Industries and Barclays PLC and Chief Operating Officer for Zurich Financial Services. David was also a former board member of the UK Accounting Standards Board, a Senior Independent Director of Intertek Group plc and William Hill plc and a non-executive director of Thomas Cook Group plc.

Clive Cowdery, non-executive director, aged 49

Clive Cowdery was appointed as a non-executive director of the Issuer on 5 November 2009 and is a member of the Investment Oversight Committee. Clive was previously the Chief Executive of Resolution Life Group Limited, a company that he founded in 2003. He was appointed Chairman of Resolution plc in September 2005 following the merger of Britannic Group plc and Resolution Life Group Limited. He is Chairman of the Resolution Foundation (a charity), and a non-executive director of Prospect Publishing Limited and Capital Investments (SICAV) plc. Clive is also a member of Resolution Operations LLP.

He started his career in insurance advising clients as a broker and was previously Chairman and Chief Executive of GE Insurance Holdings, GE's primary insurance operations in Europe with over US$3 billion of premium income at that time. The businesses he has led have included Europe's largest credit insurer with operations in 12 countries and life and pensions companies in the UK and France. Before joining GE in 1992, he co-founded Scottish Amicable International/Rothschild International, a European cross-border insurance business based in Dublin and formed in 1992.

Gerhard Roggemann, non-executive director, aged 64

Gerhard Roggemann was appointed a non-executive director of the Issuer on 5 November 2009, having been a non-executive director of Friends Provident plc since June 2007. Gerhard is a non-executive director of Resolution Limited and Chairman of their remuneration committee. He is Chairman of the Supervisory Board of GP Günter Papenburg AG, Deputy Chairman of the Supervisory Board of Deutsche Börse AG and a member of the supervisory boards of Deutsche Beteiligungs AG and Fresenius SE & Co KGaA and Vice Chairman of Canaccord Genuity Hawkpoint Limited.

Gerhard was a non-executive director of F&C Asset Management plc until 3 May 2011. He has spent much of his professional career with financial services firm JP Morgan, where his roles included Managing Director of JP Morgan's German branch in Frankfurt and Regional Treasurer Asia Pacific in the Tokyo office. Gerhard spent 13 years on the management board of two German Landesbanks, joining the executive boards of Norddeutsche Landesbank in 1991, and of Westdeutsche Landesbank (WestLB AG) in 1996. Previous board appointments include AXA Lebensversicherungs AG, AXA Kapitalanlagegesellschaft mbH, Deka Bank, Fresenius AG, Hapag Lloyd AG and VHV Holding AG.

Derek Ross, independent non-executive director, aged 62

Derek Ross was appointed as an independent non-executive director of the Issuer on 1 February 2010. He is Chairman of the Board Risk and Compliance Committee and is a member of the Audit Committee and the Investment Oversight Committee. He is also a non-executive director of European Central Counterparty Limited and The Access Bank UK Limited, and a member of the board of the Depository Trust and Clearing Corporation in the United States. He is a director and Chairman of the audit committee of GE Commercial Distribution Finance Europe and director and Chairman of the audit committee and risk committee of Sumitomo Mitsui Banking Corporation Europe Limited.

Derek has extensive experience in audit and financial advisory services, particularly in the areas of treasury and risk management. He was a Senior Partner of Deloitte LLP for 18 years and previously spent seven years as a corporate treasurer and tax manager with Black & Decker.

John Tiner, non-executive director, aged 55

John Tiner was appointed a non-executive director of the Issuer on 5 November 2009 and is a member of the Audit Committee. John is also a non-executive director of Credit Suisse AG and Lucida plc.

John was previously Chief Executive of the Financial Services Authority, a position he held between September 2003 and July 2007 when he retired from the role. He had initially joined the FSA in June 2001 as Managing Director of Consumer, Insurance and Investment Business. At the FSA, John led the review which substantially overhauled regulation of the UK insurance industry and promoted financial capability to become a public policy priority. He was also a member of the Committee of European Insurance and Occupational Pensions Regulators which steered the development of Solvency II.

Before joining the FSA, John was a Managing Partner at Arthur Andersen, responsible for its worldwide financial services practice. He joined Arthur Andersen in 1976, working mainly with banking and capital markets clients. He led the Arthur Andersen team appointed by the Bank of England to investigate the collapse of Barings Bank and draw out the lessons to be learned.

In August 2012, Resolution Limited announced that John Tiner has indicated his intention to step down as a director of the Board of the Issuer, although the timing of his departure has yet to be confirmed.

Ian Maidens, alternate non-executive director, aged 48

Ian Maidens was appointed to the Board of the Issuer as an alternate director for Clive Cowdery on 5 November 2009 and also sits on the Investment Oversight Committee in this capacity.

Ian was appointed to the Resolution plc board in July 2006 and remained in this role until shortly after completion of the acquisition of Resolution plc by Pearl Group Limited, leaving to join Resolution Operations LLP in September 2008. He had initially joined Resolution Life Group Limited as Group Chief Actuary in early 2005, prior to the merger with Britannic Group plc.

Ian was previously a Principal in the UK life consulting practice of Tillinghast, the global provider of actuarial and management consulting services, in which role he had advised the original Resolution Life Group Limited on its formation from early 2003. During his time at Tillinghast, Ian specialised in advising companies on mergers, acquisitions and financial reconstructions, and on the financial management of With-Profit funds generally. Prior to joining Tillinghast in 1997, he spent 11 years at life insurer National Provident Institution in a variety of roles, latterly that of Deputy Actuary.

Jim Newman, alternate non-executive director, aged 48

Jim Newman was appointed to the Board of the Issuer as an alternate non-executive director for John Tiner on 5 November 2009 and also sits on the Audit Committee in this capacity.

Jim was appointed to the board of Resolution plc as Group Finance Director in March 2007 and held that position until May 2008. He was previously Group Financial Controller of Resolution plc, having joined the company in 2005 from Aviva plc. After joining Norwich Union (later renamed Aviva plc) in November 1995, Jim held a number of different senior management positions there, the latest being Finance Director of Norwich Union Life Assurance, Aviva plc's UK life business. Prior to that appointment he was responsible for managing the worldwide integration of CGU and Norwich Union businesses, following their merger in May 2000 to form CGNU, later renamed Aviva plc.

There are no potential conflicts of interests between any duties to the Issuer of the members of the Board of Directors listed above and his or her private interests or other duties.

Directors of the Guarantor

The Guarantor's directors are listed below. The business address of each director of the Guarantor is Pixham End, Dorking, Surrey, RH4 1QA, United Kingdom.

Stewart Calder, director, aged 42

Stewart Calder was appointed as a director of the Guarantor on 19 September 2012. Stewart is the Group Capital Director within the Friends Life group, a position held since September 2010 and he is responsible for managing and monitoring the group’s capital position and leading its financial restructuring program following the acquisition of UK life insurance business from AXA and BUPA. He was previously at AXA Sun Life, joining them in 2005 as Head of Life Risk Management & Actuarial Function Holder before being appointed Chief Actuary in 2009. Prior to AXA, Stewart held a number of senior actuarial positions at AMP UK.

David Hynam

Please see above.

Lindsay J'Afari-Pak, director, aged 42

Lindsay J'Afari-Pak was appointed as director of the Guarantor on 15 September 2010 and is responsible for Group Tax. She was previously the UK Group Tax Director at AXA UK, having held this position since June 2007. She is a member of the Association of British Insurers' Tax Strategy Committee and plays an active role in a number of industry groups which are working with HMT and HMRC to develop a new corporate tax regime for life insurers from 1 January 2013.

Lindsay joined Friends Life from AXA UK Plc where she was, since June 2007, the UK Group Tax Director.

Originally a classics graduate of Trinity College Oxford, Lindsay qualified as a chartered accountant with Coopers & Lybrand (now PricewaterhouseCoopers) in 1997 and joined Herbert Smith LLP in 2002 where she qualified as a solicitor. Throughout her career Lindsay has specialised in the taxation of insurance companies.

Jonathan Moss, director, aged 49

Jonathan Moss joined the Friends Life group on 3 September 2012 as Chief Executive Officer of the Heritage Business, and was appointed as a director of the Guarantor on 19 September 2012. Jonathan is also a non-executive director of Sun Life Assurance Company of Canada (U.K.) Limited.

Prior to joining Friends Life, Jonathan was CEO of the Phoenix Group from 2008, having joined Phoenix as Finance Director in 2003. Prior to this, he worked at AMP, a leading wealth management company, in both their Sydney and London offices, in a variety of senior actuarial and corporate finance roles, including Chief Actuary and Financial Controller.

Mark Versey, director, aged 40

Mark Versey was appointed as a director of the Guarantor on 3 May 2011. Mark joined the Friends Life group in September 2010 as the Chief Investment Officer with responsibility for the oversight of the Friend Life group's assets. Mark has been a director of Friends Life Investments Limited since 23 March 2012.

Mark joined Friends Life from AXA UK Plc where most recently he was the CIO and Deputy Chief Financial Officer. Mark joined AXA UK Plc as their CIO in 2008 during some of the most volatile conditions witnessed by the markets. He has a wealth of experience in managing all asset classes and formulating investment strategy. Before AXA, Mark's background includes a wide range of investment banking experience covering the full remit of the UK insurance and pensions sectors. Prior to his banking experience Mark worked as a consultant actuary at Tillinghast, Towers Perrin. Mark is a graduate of Cambridge University.

There are no potential conflicts of interests between any duties to the Guarantor of the members of the Board of Directors listed above and his or her private interests or other duties.

Ownership of the Issuer and the Guarantor

The Issuer is a public company limited by shares and is ultimately owned by Resolution Limited through Resolution Holdco No.1 LP, a limited partnership, and Resolution Holdings (Guernsey) Limited, an intermediate holding company of the RSL Group. The Guarantor is a wholly owned indirect subsidiary of the Issuer.

Significant subsidiary undertakings of the Issuer

The Issuer is the holding company of the Friends Life group. The following is a list of certain significant subsidiary undertakings of the Issuer, all of which, save as otherwise stated, are incorporated in England and Wales:

Subsidiary undertaking	Activity	% held
Life and Pensions		
Friends Annuities Limited	Insurance	100

Friends Life Company Limited	Insurance	100
Friends Life Limited	Insurance	100
Friends Life and Pensions Limited	Insurance	100
Friends Life Assurance Society Limited	Insurance	100
Friends Life WL Limited	Insurance	100
Friends Provident International Limited [1]	Insurance	100
Lombard International Assurance SA [2, 3]	Insurance	99.62
Other		
Friends Life Investments Limited	Investment Management	100
Friends Life Investment Solutions Limited	Investment Platform provider	100
Friends Life Services Limited	Management services	100
Friends Provident Management Services Limited	Management services	100
Sesame Bankhall Group Limited [4]	IFA distribution business	80

(1) Incorporated in the Isle of Man.

(2) Incorporated in Luxembourg.

(3) Lombard International Assurance SA has a long-term incentive scheme in place, the participants of which own a small percentage of the total share capital of Lombard International Assurance SA.

(4) Sesame Bankhall Group Limited is a 100 per cent. subsidiary of Friends Life Distribution Limited, which is 80 per cent. owned by Friends Life group and 20 per cent. owned by the employees of the Sesame Bankhall group.

UK INSURANCE REGULATION

The insurance operations of the Friends Life group include activities in many jurisdictions, including the United Kingdom. Various companies within the Friends Life group are subject to regulation by regulatory or governmental bodies in the jurisdictions in which they operate. The nature and extent of such regulation varies from jurisdiction to jurisdiction, but typically it requires companies carrying on specified activities to obtain permission, authorisation and/or a licence to carry on such activities and to comply with detailed prudential and/or conduct of business rules. However, insurers authorised in an EEA member state may avoid the requirement to be authorised separately to carry on insurance business in each other EEA member state in or into which they carry on such business by use of the EEA "passport" referred to in the "EEA Regulatory Environment" section below.

The Friends Life group's Life and Pensions Businesses will comprise companies and/or businesses which have substantial operations consisting of long-term insurance and/or asset management activities and which undertake a significant part of their business in the UK and/or the rest of Western Europe.

UK regulatory environment

In the UK currently, insurance companies must be authorised by the FSA and are subject to regulation by the FSA under the regime established pursuant to FSMA. Accordingly, these insurers must comply with the rules and guidance made by the FSA under FSMA and set out in the FSA Handbook, which includes the FSA's Principles for Businesses, GENPRU, INSPRU, IPRU(INS), SYSC, COBS and ICOBS.

On 16 and 17 June 2010 the UK government announced plans to reform the institutional framework for financial regulation in the UK. Since that date, the UK government has drawn up legislation to break up the FSA and reallocate its current responsibilities between two new regulatory authorities, the FCA and the PRA, and to establish a new authority at the Bank of England with a macro-prudential regulatory role (the FPC). In relation to these structural reform proposals, the Treasury published an initial consultation document in July 2010 and followed that with a second, more detailed consultation document in February 2011. Subsequently, in June 2011, the Treasury published the draft Financial Services Bill, which was accompanied by a further consultation document and white paper setting out additional policy detail entitled "A new approach to financial regulation: the blueprint for reform". The consultation period ended on 8 September 2011 and in January 2012, the Treasury published a policy document which sets out, among other things, a summary of the responses it received to its June 2011 consultation paper. The Financial Services Bill had its first and second readings in the Houses of Commons on 26 January 2012 and 6 February 2012, respectively. On 22 March 2012, the Financial Services Bill completed its committee stage in the House of Commons. The House of Commons has published a revised version of the Bill reflecting the amendments made in the Public Bill Committee, which had its third reading in the House of Commons on 22 May 2012. The Financial Services Bill had its first and second readings in the Houses of Lords on 23 May 2012 and 11 June 2012 respectively. Following a motion passed in the House of Lords on 18 June 2012, the Financial Services Bill is being considered by a committee of the entire House of Lords. The Financial Services Bill is being examined by the committee in various sittings which commenced on 18 July 2012 and further amendments are scheduled to be discussed at the committee stage.

The Financial Services Bill is expected to become law by the end of 2012, with the new regime intended to take effect in early 2013 (the FSA's Business Plan for 2012/13 suggests that the cut-over to the new regime will occur in March 2013).

If that legislation passes through Parliament in substantially its current form, the new PRA will be created and will operate as a subsidiary of the Bank of England, with responsibility for carrying out the micro-prudential regulation of insurance companies, banks and certain large investment firms. It is envisaged that the PRA's primary purpose and objective will be to promote financial stability through its supervisory activities. The PRA will also have a specific 'insurance objective' of securing an appropriate degree of protection for those who are or may become with-profits policyholders of a PRA-authorised insurer and of contributing to the securing of such protection for all other policyholders. In October 2012, the FSA issued a document outlining the PRA's supervisory approach for insurers. The new FCA will be established to regulate the conduct of every authorised firm (including dual-regulated firms), and to carry out the prudential supervision of firms which are not supervised by the PRA. The FCA's primary purpose and its "operational objectives" will be to protect and enhance confidence in the UK financial system by protecting consumers, enhancing the integrity of financial markets and promoting competition in consumers' interests, efficiency and choice. The FCA will also have the "strategic objective" of ensuring the relevant markets function well. In relation to the FCA's proposed new product intervention powers (which may allow the FCA to block an imminent product launch or stop an existing product), the UK government intends to proceed with its proposals so that such powers can be used by the FCA in a targeted and appropriate way that is transparent to both firms and consumers.

If enacted in its current form, the Financial Services Bill will also create the independent FPC at the Bank of England, which will be given powers to supervise the financial services sector at a macro level, responding to sectoral issues that could threaten economic and financial stability. The UK government intends that the FPC will have powers to give directions to the PRA (and, where necessary, the FCA). An interim FPC was established in February 2011 as a

committee of the Bank of England's Court of Directors, tasked with undertaking, as far as possible pending the necessary legislative footing, the forthcoming statutory FPC's macro-prudential role. The interim FPC met on 16 March 2012 to discuss and submit its recommendations on the precise scope of the FPC's macro-prudential toolkit. The interim FPC published a final record of this meeting on 28 March 2012, in which it advised the Treasury that, in order to meet the FPC's proposed objective of removing or reducing systematic risks which could threaten the resilience of the UK financial system, the FPC should initially have powers of 'Direction' over the following macro-prudential tools: (i) the countercyclical capital buffer (that is, the FPC should take decisions about the appropriate setting of the countercyclical capital buffer in the United Kingdom); (ii) the sectoral capital requirements (that is, the FPC should have powers of Direction to vary over time financial institutions' capital requirements against exposure to specific sectors); and (iii) a leverage ratio (that is, the FPC should have powers of Direction to set a maximum ratio of total liabilities to capital, and to vary it over time). The interim FPC agreed on the need to ensure that the effectiveness of the macro-prudential tools would not be limited by inadequate coverage, noting that in addition to banks such tools could be applied to insurers, building societies, investment firms and a variety of funds and investment vehicles. The interim FPC also considered further potential powers of Direction but delayed recommending these to the Treasury until such Directions have been the subject of further analysis and public debate (no date has yet been set as to when the interim FPC will report on this). On 18 April 2012, the House of Commons Treasury Committee published its report into the 2012 Budget in which, *inter alia*, it announced that it would conduct an inquiry into the proposed macro-prudential tools of the FPC. In this report, the Treasury Committee recommends that the FPC and the Office for Budget Responsibility (the "**OBR**") work together in the development of the tools to ensure they are reflected in the OBR's forecasts.

The UK government has committed to completing the necessary primary legislation required to implement these structural reforms and the transferring of powers to the new regulatory authorities, by early 2013. Ahead of the split to the PRA and the FCA, from 2 April 2012 the FSA moved to a "twin peaks" model internally, whereby it began to separate prudential regulation from conduct of business regulation. From that date, insurers, banks, building societies and major investment firms have had two independent supervision teams, one focusing on prudential regulation and one focusing on conduct issues. The FSA's Business Plan for 2012/13 sets out information on the FSA's work relating to the twin peaks structure and the design of the new regulatory structure. The FSA intends to use the period until cut-over to, *inter alia*, define and build the new PRA and FCA operating models and work with the Bank of England and the Treasury to agree the detailed procedures for co-ordination between the FCA and the PRA.

While it is not presently anticipated that the structural reorganisation and reallocation of the FSA's regulatory responsibilities will by itself lead to material substantive changes in the prudential and conduct of business rules and guidance which have been made or are being consulted on by the FSA, it is possible that in due course changes will be made to the structure and composition of the FSA Handbook to accommodate the division of responsibilities between the FSA's successor regulatory authorities. It is also possible that powers will be granted to the FSA's successor regulatory authorities which extend beyond those currently granted to the FSA. It is also possible that the nature of, or policies for, prudential and conduct of business supervision as performed by any successor authority to the FSA could differ from the current approach taken by the FSA, including the possibility of higher capital requirements, restrictions on certain types of transaction structures, and enhanced supervisory powers including a greater level of intervention in product design and distribution models.

The FSA's powers

The FSA has broad supervisory powers deriving in particular from FSMA including, among other things, the powers to grant and, in specific circumstances, to vary or cancel a Part IV Permission, to approve or withdraw the approval of individuals wishing to perform controlled functions, to investigate marketing and sales practices, and to require the maintenance of adequate financial resources. One of the FSA's principal regulatory objectives in the context of the regulation of insurance companies is the protection of policyholders interests rather than shareholder or general creditors.

The FSA has powers to cancel or vary (including by imposing limitations such as a requirement not to take on new business) a Part IV Permission of an insurer if it is not satisfied that the firm is continuing to satisfy its capital adequacy requirement or otherwise meet the Threshold Conditions.

The FSA may, from time to time, make enquiries of or conduct investigations into the firms which it supervises regarding, for example, compliance with rules and regulations governing the conduct and operation of business.

The FSA has wide powers to supervise and intervene in the affairs of an insurer if it considers, for instance, that it is appropriate in order to protect policyholders or potential policyholders against the risk that the insurer may be unable to meet its liabilities, that the Threshold Conditions may not be met, that the insurer or its parent has failed to comply with obligations under relevant legislation, that the insurer has furnished misleading or inaccurate information to the FSA or that there has been a substantial departure from any proposal or forecast submitted to the FSA.

The FSA also has the power to take a range of formal and informal disciplinary or enforcement actions, including the imposition of private censure, public censure, restitution, fines or sanctions and the award of compensation. These powers may be exercised in relation to both FSA-authorised firms and individual Approved Persons.

Disciplinary or enforcement action or any other regulatory proceedings could result in adverse publicity as well as diverting management's attention from the day-to-day management of the business. A significant regulatory action against a member of the Friends Life group, for example, could have a material adverse effect on the business of the Friends Life group, its results of operations and/or financial condition (see Risk Factor titled: "*The Friends Life group is subject to extensive financial regulation and must comply with conduct of business standards and with capital requirements which may be modified by regulatory authorities subject to supervisory assessments of adequacy*").

Permission to carry on insurance business

Under FSMA, it is unlawful to effect or carry out contracts of insurance (i.e. to carry on insurance business) in the United Kingdom without Part IV Permission to do so.

The FSA, in deciding whether to grant Part IV Permission, is required to determine whether the applicant satisfies the requirements of FSMA, including the applicant's ability to meet certain 'threshold conditions' for authorisation which are set out in schedule 6 of FSMA and the Threshold Conditions Sourcebook in the FSA Handbook (the "**Threshold Conditions**"). The Threshold Conditions are the minimum conditions that must be satisfied (both at the time of initial FSA 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 Threshold Conditions relate to matters such as the legal form of the undertaking, its position within a group and its relationship with controllers, and whether the firm has adequate resources (including capital, human resources and effective means of managing risk) to carry out the proposed regulatory activities. The FSA must also consider whether the applicant is a fit and proper person having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently).

An FSA authorised firm's Part IV Permission may be granted subject to such requirements as the FSA considers appropriate. These could include limitations and requirements relating to the operation of the company and the carrying on of insurance business.

FSA Handbook

The FSA's approach to regulation and the standards it requires authorised firms to observe and maintain are set out in the FSA Handbook. FSMA, the FSA Handbook and secondary legislation made under FSMA are also used to implement the requirements of EU Directives (applicable throughout the EEA) relating to financial services and to insurance business in particular.

The FSA Handbook comprises a number of sourcebooks which set out the rules which apply to FSA-authorised firms. These sourcebooks are categorised by the types of rules they contain; categories include High Level Standards relating in particular to firms' systems and controls, Prudential Standards setting out firms' capital requirements, and Business Standards relating to firms' conduct of business.

On 1 June 2012, the FSA published a guide which stated that when the PRA and the FCA acquire their legal powers, and the FSA is abolished in its current form, the FSA Handbook will be split between the two new regulators to form two new handbooks. Firms that will be regulated by both the PRA and the FCA will need to refer to both handbooks, while FCA-regulated firms will only need to refer to the FCA Handbook. The guide states that most of the existing provisions in the FSA Handbook will be incorporated in one or both of the new handbooks.

The guide also states that the FSA intends to consult on those areas of the FSA Handbook where more substantive changes are necessary to reflect the creation of the new regulators and their roles and powers. These areas are likely to include the processes for permissions, passporting, controlled functions, threshold conditions and enforcement powers and it is expected that the new handbooks in draft form will be published in early 2013 together with material on how to interpret the application of the new handbooks.

The FSA Handbook will remain in force until the PRA and the FCA acquire their legal powers and the FSA will continue to make changes to its handbook in accordance with its usual procedures until that point.

The Principles for Businesses

FSA-authorised insurers are subject to certain overarching principles prescribed by the FSA, called the "Principles for Businesses". These principles are intended to ensure fairness and integrity in the provision of financial services in the United Kingdom and contain the fundamental obligations of firms authorised by the FSA. The FSA's emphasis and reliance on these principles has marked a move to more "principles-based" regulation, although this has, since the global banking crisis emerged in 2008, increasingly been referred to as "outcomes-focused" regulation. In particular, the principles require an authorised firm to:

(a) conduct its business with integrity;

(b) conduct its business with due skill, care and diligence;

(c) take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;

(d) maintain adequate financial resources;

(e) observe proper standards of market conduct;

(f) pay due regard to the interests of its customers and treat them fairly;

(g) pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading;

(h) manage conflicts of interest fairly, both between itself and its customers and between a customer and another client;

(i) take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment;

(j) arrange adequate protection for clients' assets when it is responsible for them; and

(k) deal with its regulators in an open and cooperative way, and disclose appropriately to the FSA anything relating to the firm of which the FSA would reasonably expect notice.

Prudential standards

It is a fundamental requirement of the FSA's prudential rules that authorised 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. Provisions explaining the requirement to manage risks in general and details relating to the management of particular types of risk are set out in INSPRU and SYSC.

GENPRU

The rules in GENPRU apply to all banks, building societies, insurers, and many investment firms. GENPRU 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, firms will need to hold additional capital.

INSPRU

The rules in INSPRU apply specifically to insurers and contain further provisions on managing risk and calculating the cover for insurance liabilities, including provisions relating to admissibility of assets and limits on counterparty and asset exposures. INSPRU also contains conduct of business restrictions which seek to limit the activities of the insurer to insurance business and activities directly arising from that business.

SYSC

The rules in SYSC aim to encourage and require senior managers and directors to take appropriate management responsibility for the firm's affairs. The SYSC rules elaborate on the Principles for Businesses and require a firm's senior managers to ensure that, among other things: (i) their firm's employees have suitable skills, knowledge and expertise; (ii) their firm has in place appropriate risk management systems and controls; and (iii) their firm has in place appropriate compliance, record keeping and audit systems.

In addition to the categories of risk set out in GENPRU, SYSC also requires firms to manage group risk (for example, an insurance company's exposure to other members of its group).

The Approved Persons Regime

Certain key functions in the operation of an insurance business ("**controlled functions**") may only be carried out by persons who are approved for such tasks by the FSA under FSMA ("**Approved Persons**"). These persons must comply with a set of principles which largely mirror the Principles for Business referred to above.

Under FSMA, the FSA has powers to regulate two types of individuals: those who have a significant influence on the conduct of an authorised firm's affairs and those who deal with customers (or the property of customers).

The significant influence controlled functions include governing functions such as being a director or non-executive director of an insurance company, finance functions and significant management functions, such as insurance underwriting.

With effect from 6 August 2009, the significant influence controlled functions have been extended to include additional individuals, including directors, non-executive directors and senior managers employed by a parent undertaking or holding company of an authorised firm if such persons have a significant influence over the business of an authorised firm. In September 2010, the FSA published a policy statement (PS10/15) in which it stated its intention to regulate these individuals under a new 'parent entity significant influence', or 'CF00', controlled function regime. The September 2010 policy statement also set out more detail, in the form of a set of frequently asked questions, or 'FAQ', as to how the CF00 function will be identified and applied. In particular the FAQ indicated that the FSA will examine

whether the governing body of an FSA-authorised firm as a whole takes into account the relevant individual's decisions or actions, distinguishing it from the situation where individual members of the governing body of the authorised firm have reporting lines to that person (and therefore could possibly be influenced by his or her decisions or actions).

In addition, the September 2010 policy statement provided for changes in the existing list of controlled functions, particularly to break up a number of existing controlled functions (which captured a relatively broad range of functions) into more specific functions. New controlled functions will be introduced, for example, to cover the roles of chairman, senior independent director, chairman of the risk committee, chairman of the audit committee and chairman of the remuneration committee. The result of these changes is likely to be that the scope of the existing director and non-executive director controlled functions will decrease.

The changes envisaged by the September 2010 policy statement were originally intended to be implemented with effect from 1 May 2011. On 25 March 2011 the FSA announced, however, that it was deferring the implementation of the new regime until further notice. No revised date for implementation has been announced. In October 2012, the FSA published a consultation paper (CP12/26) on the changes to the approved persons regime that will be necessary when the Financial Services Bill comes into force.

The FSA published a policy statement (PS10/16) on enhancing its Client Assets Sourcebook in October 2010. That policy statement introduced with effect from 1 January 2011 among other things, a requirement on certain authorised firms to apportion operational oversight for compliance with the Client Assets Sourcebook to a senior manager or director.

The FSA will not grant Approved Person status to an individual unless it is satisfied that the individual has appropriate qualifications and/or experience and is fit and proper to perform those functions. In particular, the FSA must be satisfied as to the person's honesty, integrity and reputation, competence and capability for the role that the person is to assume in the firm, and financial soundness. In relation to significant influence function roles in particular, the FSA has been conducting more rigorous assessments of applicants for Approved Person status recently, and in some cases, (such as incoming chairmen, chief executives, senior independent directors, finance directors and chief financial officers, risk directors and chief risk officers and non-executive directors whose responsibilities include chair of audit, risk or remuneration committees, particularly of larger, more complex or risky firms) will expect to interview candidates. The FSA's focus on an applicant's competence and capabilities for the role has increased since the recent financial crisis, and candidates can now expect to be assessed against criteria such as market knowledge, risk management and control, and governance and oversight.

Conduct of business requirements

The FSA's conduct of business requirements in relation to the distribution and sale of insurance products are contained in COBS and ICOBS.

COBS applies to designated investment products, which include certain long-term insurance products. ICOBS applies to non-investment insurance products, including long-term non-investment insurance products such as mortgage protection insurance. These sourcebooks also implement the IMD (which is currently under review: see the section entitled "*Future developments*") and extend the IMD to direct sales by insurers themselves.

Many of the provisions of these sourcebooks only apply to insurers or intermediaries who deal directly with retail customers, or are confined in their application to transactions with retail customers.

Treating customers fairly

The Principles for Businesses, among other things, require that all regulated firms treat their customers fairly (the "**TCF principle**"). The emphasis of the TCF principle, in line with the FSA's outcomes-focused approach to regulation, is on achieving fair outcomes for customers more than the means by which those outcomes are achieved.

For firms that fall within its scope, the TCF principle affects the whole of the firm's FSA regulated business with customers. The FSA has highlighted a number of key areas where firms need to ensure TCF compliance which include the product life-cycle (from product design through to sales, administration and complaints handling), staff training, record-keeping, remuneration, incentives and preparation and use of management information. The FSA has made clear that it is the responsibility of the senior management of each firm to ensure that compliance with TCF is implemented and fully embedded across the firm's culture and business.

Monitoring compliance with the TCF principle has, since January 2009, formed part of the FSA's core supervisory activities with relevant authorised firms.

The FSA has wide-ranging powers to take enforcement action against both firms and individuals (for example, against senior management if it considers that they have failed in their responsibilities) for breach of the TCF principle, including where it finds that a firm's systems or actions cause actual or potential consumer detriment.

WP regime review

On 24 February 2011 the FSA published a consultation paper (CP11/5) on protecting with-profits ("**WP**") policyholders. In this consultation paper the FSA set out its proposed changes to the regulatory regime for WP funds.

The consultation paper followed the publication in June 2010 of the FSA's With-Profits Regime Review Report. The consultation period closed on 24 May 2011. On 7 March 2012 the FSA published a policy statement (PS12/4) on protecting WP Policyholders. The policy statement includes the final form of new rules adopted by the FSA with effect from 1 April 2012 applying to firms operating WP funds in the areas of governance, conflicts of interest, product literature, the treatment of excess surplus and the terms on which new business is written.

The rules and guidance set out in the policy statement include, *inter alia*:

(a) guidance that policyholders have an interest "in the whole and in every part of the with-profits fund into which their policies are written and from which the amounts payable in connection with their policies are to be paid" and that those amounts "include those required to satisfy their contractual rights and such other amounts as the firm is required to pay in order to treat them fairly". Responses to this guidance included arguments that it extends interests of policyholders beyond what they previously had before its introduction, including submissions that policyholders' interests should not extend beyond their smoothed asset share on their policies and, for proprietary firms, that the FSA's approach ignored the legal and beneficial ownership of the fund and its assets by the firm;

(b) a requirement that WP funds that closed to new business before the current rules came into effect in 2005 should produce run-off plans. However, such firms will only have to produce the information that is relevant to the efficient and effective run-off of the fund while delivering fairness to policyholders, and will have until 31 December 2012 to submit such run-off plans;

(c) amendments to COBS 20 to provide that firms must not effect new contracts of insurance in an existing WP fund unless the firm's board of directors, committee of management or other governing body is satisfied, so far as it reasonably can be, and can demonstrate that the terms on which each type of contract is to be effected are likely to have no adverse effect on the interests of the WP policyholders whose policies are written into that fund; and

(d) changes to the governance requirements including requiring firms with a website to publish terms of reference for WP committees on their website (firms without a website, in particular small mutual firms, must make the terms of reference available on request). However, FSA has decided not to proceed at this time with the proposal contained in CP11/5 requiring compulsory WP committees for all but small funds and the existing COBS 20 provisions will be retained. The FSA did however state that in its opinion there is considerable merit in the suggestion that a WP committee should be the general rule except for those firms whose low level of complexity makes one unnecessary and which would instead retain the existing ability to use an independent person in those circumstances to fulfil such role. Although the FSA will not proceed with the compulsory WP committee proposal at this time, it is planning to give further consideration to the various options with the intention of consulting on revised proposals in due course.

The policy statement also states that the FSA intends to conduct further work on the mutual WP sector and on WP policyholder communications; the FSA is yet to provide an anticipated timeframe for this further work. However, in light of the feedback the FSA received in response to CP11/5 (as contained in PS12/4) concerning the volume and intensity of regulatory change for life insurers, in terms of WP business, the FSA intends to prioritise its work on mutuals and on preparing for Solvency II over revisiting any unresolved issues from CP11/5 and its planned work on WP policyholder communications. Nevertheless, the FSA recognises the importance of these issues and has confirmed that it will continue to develop policy in these areas.

Change in control of authorised firms

Under the FSMA controllers regime, a person who has decided to acquire or increase to or above one of the thresholds referred to below its "control" over a UK firm authorised by the FSA is required to notify the FSA of his decision and to receive approval from the FSA before becoming a "controller" or increasing his interest in such a firm. No prior approval for reducing control below one of the thresholds referred to below is needed, though notification must still be given to the FSA of the relevant transaction.

In addition, the authorised firm itself is expected to notify the FSA of any prospective changes in control of which it is aware, regardless of whether the controller or the proposed controller proposes to submit a change in control application.

In most cases, a person acquires "control" over an FSA authorised firm (including a UK insurer) where such person acquires 10 per cent. or more of the shares or voting rights in that firm or in a parent undertaking of that firm, or otherwise becomes able to exercise significant influence over the management of the firm by virtue of a holding of shares or voting power in that firm or in any of the firm's parent undertakings. In respect of increases and decreases in control, the relevant thresholds are 20, 30 and 50 per cent., or the relevant firm otherwise becoming (or ceasing to be) a subsidiary undertaking of the controller.

Shares or voting power in an FSA authorised firm held by persons, whether natural or legal, who are considered to be "acting in concert" must be aggregated. This means that a person may acquire control over an FSA authorised firm despite the person's own holding of shares or voting power in the relevant firm being less than 10 per cent.

In relation to some categories of FSA authorised firms, including UK insurance intermediaries, there is instead a single control threshold of 20 per cent.

An exhaustive list of criteria for determining the suitability and financial soundness of a proposed "controller" is set out in FSMA. In particular, the FSA may only object to an acquisition or increase in control on the basis of: the reputation of the proposed controller; the reputation and experience of any person who will direct the business of the relevant firm following the change in control; the financial soundness of the proposed controller; whether the relevant firm will continue to be able to meet applicable prudential requirements (including financial resources requirements); whether the relevant firm will be harder to supervise if it joins the proposed controllers' group; or if there are reasonable grounds to suspect a risk or increased risk of money laundering or terrorist financing.

The FSA has 60 working days from the date on which it acknowledges the receipt from a proposed controller of its application to become a controller of an authorised firm to determine whether to approve the new controller or object to the transaction, although if the FSA requires further information to be provided in order to complete its review this period will be interrupted for up to 30 working days while the FSA is awaiting the provision of that further information. If the approval is given, it may be given unconditionally or subject to conditions.

Breach of the requirement to notify the FSA of a decision to acquire or increase control, or of the requirement to obtain approval before completing the transaction in question, is a criminal offence attracting potentially unlimited fines. The FSA can also seek other remedies, including suspension of voting rights and a forced disposition of shares acquired without prior approval.

Consumer complaints and compensation

Insurers, along with all other FSA-authorised firms and certain other unregulated businesses, operate under the compulsory jurisdiction of the FOS which has been set up under FSMA. The FOS operates independently of the FSA and deals with disputes for certain categories of retail customer complaints, including complaints about mis-selling, misleading advertisements, unsuitable advice, unfair treatment, maladministration and delay and poor service provided by firms.

The FOS provides an alternative to retail customers bringing complaints in the courts and is empowered to order a firm to pay fair compensation for any loss or damage it causes to a customer as a result of the firm breaching any applicable rule, subject to certain financial limits.

The FSCS has been established by the FSA under FSMA and provides compensation to certain categories of customers who suffer losses as a consequence of the inability of a regulated firm to meet its liabilities arising from claims made in connection with regulated activities. The FSCS is funded by means of levies on all its participating financial services firms, including insurers. The levy is calculated separately for each class of financial services, although there are circumstances in which one class of financial services firms can be required to pay levies to fund payments to customers of a financial services firm of another class that is in default. The levy for 2012/13 was announced in April 2012 for the life and pensions intermediation sub-class and is £46 million. There is no levy for life and pensions provision.

On 27 March 2012 the FSA published a consultation paper on changes to the compensation sourcebook which governs the operation of the FSCS (CP12/7). This consultation paper contains proposals to enable the FSCS to handle claims in a more efficient manner including, *inter alia*, proposals concerning the quantification of compensation, simplification of the eligibility criteria and disclosure requirements for deposit takers. Additionally, through CP12/7, the FSA is seeking feedback (rather than proposing new rules or guidance) on issues that are relevant to the general framework of protecting insurance policyholders. In seeking such feedback the FSA is aiming to inform its future consideration of the desirability of changing elements of the compensation sourcebook's existing insurance framework.

On 28 May 2012, the FSA published a policy statement on raising consumer awareness of deposit protection which includes new disclosure requirements for deposit takers (PS12/10). Appendix 1 to PS12/10 contains the instrument introducing the measures requiring increased disclosure. The instrument, which inserts a new section 16.4 into the compensation sourcebook on compensation information, comes into force on 31 August 2012. All deposit-takers are expected to be compliant by 31 August 2012, with the exception of Northern Ireland credit unions, who are expected to comply with these rules at the same time that they become subject to other FSA disclosure requirements.

In PS12/10, the FSA noted that a further consultation on compensation disclosure requirements will be required, depending on the outcome of the European Commission's proposed amendments to the Deposit Guarantee Schemes Directive (94/19/EC) (the "**DGSD**"). The Commission published a legislative proposal for amending the DGSD in July 2010. The FSA has commented that it is currently unclear when these proposals will be finalised.

The FSA published feedback on the other proposals contained in CP12/7 in PS12/15 on 28 September 2012 and has proceeded, subject to a few modifications, with all the changes consulted on.

On 3 October 2011, the FSA published a press release announcing its decision to restart the FSCS funding review. The FSA originally started the review in October 2009, but put it on hold due to uncertainties regarding the impact of UK regulatory reform on the FSCS and the ongoing work at European level on legislative proposals in this area. In its June 2011 white paper on the new UK financial services regulatory structure, the Treasury published its proposals on the

future structure, rule-making arrangements and accountability of the FSCS and on 25 July 2012 the FSA published a consultation paper on its review of the FSCS funding model (CP12/16).

CP12/16 concerns the main elements of the FSCS funding model and sets out the FSA's proposals for change or its reasons why it is proposing to retain the current approach. The FSA's proposals are consistent with the way the funding model would work following the split of regulatory responsibilities between the PRA and the FCA in 2013.

The FSA has concluded that there are continuing reasons for, and no suitable alternative to, the existing FSCS funding class structure. It therefore proposes to retain the current approach. However, it has proposed changes relating to the maximum amount (annual threshold) that each class may be required to pay in any given year and the approach for determining the amount of expected compensation costs that can be included in the annual compensation costs levy and to extend the forecast period from 12 to 36 months for all classes except deposits.

The FSA expects that its proposals will come into effect on 1 April 2013. Responses to the consultation are invited by 25 October 2012.

Prudential requirements

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.

Solo capital requirements

Under GENPRU, the capital resources requirement for insurers (the "**CRR**") is the end product of separate regulatory capital components. All insurers are required to hold at least the minimum capital requirement ("**MCR**") which is calculated differently for life and non-life firms. Many insurers carrying on long-term business are also required to calculate, report and in some cases maintain, an enhanced capital requirement ("**ECR**"). The ECR is intended to provide a more risk responsive measure of insurers' capital requirements in respect of WP business. The firms falling within this regime (being firms that have more than £500 million of WP liabilities or that have voluntarily elected to be within this regime), such as Friends Life Limited, are known as "realistic basis life firms"; all other firms carrying on long-term insurance business are known as "regulatory basis life firms". The CRR, MCR and ECR for realistic and regulatory basis firms are considered in more detail below.

(A) Capital Resources Requirement

For realistic basis life firms, the CRR is required to be the higher of the ECR and the MCR. For regulatory basis life firms, the CRR is required to be equal to the MCR. Explanations of the MCR and the ECR as they affect long-term insurers are set out below.

(B) Minimum Capital Requirement

In overview, for a regulatory basis life firm, the MCR is the higher of:

(a) the base capital requirement for long-term insurance business applicable to that firm (an EU specified minimum capital requirement, expressed as an absolute amount in Euros, which differs for various classes of insurer); and

(b) the sum of:

   a. the long-term insurance capital requirement ("**LTICR**") (which is calculated by reference to the capital at risk in respect of specified insurance business risks); and

   b. the resilience capital requirement ("**RCR**") (which is an additional UK requirement which requires capital to be set aside against the potential effects of market risk).

For a realistic basis life firm, the MCR is the higher of:

(a) the base capital requirement for long-term insurance business applicable to that firm; and

(b) the LTICR.

(C) Enhanced Capital Requirement

The ECR is intended to operate as a separate, more risk-sensitive measure than the MCR. Determination of the ECR for a realistic basis life firm involves the calculation of a With Profits Individual Capital Component, or "**WPICC**", in order to determine whether there is a need to supplement the mathematical reserves of a firm to ensure that the firm holds adequate financial resources for the conduct of its WP insurance business. The WPICC is assessed by comparing two separate measurements of the firm's financial resources requirements in respect of its WP business. The FSA has termed this the "twin peaks" approach. The two separate "peaks" are, in overview:

(a) the firm's financial resources requirement comprising the mathematical reserves plus the LTICR. This is known as the "regulatory peak"; and

(b) the firm's financial resources requirement calculated by reference to the "realistic" present value of the firm's expected future contractual liabilities together with projected "fair" discretionary bonus payments to policyholders. The assessment of what is a "fair" discretionary bonus payment will depend upon what is required to treat the WP policyholders fairly and this, in turn, is linked to the requirements on WP governance and, in particular, the requirement that WP insurers have to publish Principles and Practices of Financial Management setting out how the insurer intends to exercise its discretion under WP policies. In addition, the FSA requires a margin or buffer to be added to the realistic liabilities calculation to cater for risk. Called the risk capital margin ("**RCM**"), this addresses risk factors, such as market, credit and persistency risks, the effect of which could otherwise render the realistic calculation insufficient. The realistic liabilities and RCM are together known as the "realistic peak".

If the calculation of the realistic peak, including the RCM, produces a capital resources requirement in excess of the regulatory peak, then the difference will give rise to the WPICC to cover the difference. ECR for a realistic basis life firm is the sum of the LTICR and the WPICC. If the realistic peak is lower than the regulatory peak, the WPICC will be zero and the ECR and MCR will be the same, meaning that the MCR approach will be applicable.

Individual Capital Assessment

The FSA requires all insurance firms (whether or not they calculate an ECR) to carry out an Individual Capital Assessment ("**ICA**"). As part of the ICA process, firms are required to conduct stress and scenario testing to determine the overall adequacy of their financial resources and make a reasonable assessment of their capital needs for their business overall.

The ICA assists the FSA to provide Individual Capital Guidance ("**ICG**") to firms on a confidential basis. ICG is set with reference to the specific business and control risks faced by each individual company and takes account of the company's ICA. Insurers that can demonstrate that they have identified and have assessed their risks and have appropriate controls to mitigate those risks are less likely to find the FSA imposing a capital add-on as part of the ICG process.

ICG is presented to a firm as guidance (and not a formal prudential requirement) although the FSA has indicated that it would expect to be notified of a failure to maintain capital at a level advised in the ICA (or ICG, if applicable) and, on becoming aware of such a failure, the FSA has indicated that it expects to require firms to set out a plan to restore adequate capital to meet the ICA/ICG threshold.

Reporting

UK insurance companies have to prepare their accounts in accordance with special form and content provisions. For insurance companies that prepare accounts under UK GAAP, the requirements are prescribed by Schedule 3 to the Large and Medium Sized Companies (Accounts and Reports) Regulations 2008. For companies that use IFRS, the IFRS will apply. Insurance companies are required to file, and provide their shareholders with, audited financial statements and related reports. Insurance companies are separately required to deposit with the FSA an annual return comprising audited accounts and other prescribed documents within three months of the end of the relevant financial year, if the deposit is made electronically, and otherwise within two months and 15 days of the end of the relevant financial year. These returns are required to be prepared in accordance with the valuation rules in INSPRU and GENPRU and the reporting rules in IPRU(INS).

The Issuer also produces its accounts to comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) in so far as these requirements do not contradict IFRS requirements.

Investment of capital and reserves

Under INSPRU 1.1.20R, non-composite firms, such as Friends Life Limited, and each of the insurers comprising the AXA UK Life Business must hold admissible assets of a value at least equal to the amount of:

(a) the technical provisions that it is required to establish under INSPRU 1.1.16R, being mainly mathematical reserves, which are provisions made by an insurer broadly to cover liabilities arising in respect of long-term insurance business, in accordance with INSPRU 1.2; and

(b) its other general insurance liabilities or long-term insurance liabilities, but excluding linked liabilities and the assets held to cover them.

Assets and investments count towards capital adequacy requirements only if they are admissible assets capable of being valued in accordance with GENPRU 1.3. Inadmissible assets are deducted from capital resource calculations. Assets are also required to be deducted from capital resources if they do not comply with the requirements in INSPRU 2 as to counterparty and asset exposure limits (although they may still be included in the calculation of a firm's realistic assets). These limits are intended to prevent insurance companies from incurring a significant exposure to any one counterparty (including a group of companies) or one asset type. Assets outside counterparty and asset exposure limits may be taken into account when capital guidance to that effect is given.

Insurance group capital

The Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1998/78/EC) (the "**Insurance Groups Directive**") as amended by the European Union Directive on the Supplementary Supervision of Credit Institutions, Insurance Undertakings and Investment Firms in a Financial Conglomerate (2002/87/EC) requires member states to provide consolidated supervision for any insurance undertaking that is part of a group which includes at least one other insurance company, insurance holding company, reinsurance undertaking or non-member-country insurance undertaking. The relevant provisions governing group capital are primarily contained in chapter 6 of INSPRU and the group capital reporting requirements are set out in paragraphs 9.40 to 9.46 of IPRU(INS).

Every insurer that is a subsidiary undertaking of an ultimate insurance parent undertaking (an ultimate insurance parent undertaking being an insurance holding company, an insurer or a reinsurance company and which has at least one insurance/reinsurance subsidiary whose head office is in an EEA member state) and whose head office is in the United Kingdom is required to report on the consolidated capital adequacy of the insurance group of which it is a member at the level of its ultimate insurance parent company and its ultimate EEA insurance parent company (if different). Since 31 December 2005 insurers have been required to provide on request a summary of the report on group capital adequacy at the level of the ultimate EEA insurance parent. Since 31 December 2006 it has been a regulatory requirement for positive group capital adequacy to be maintained at that level. These requirements apply at the same time as, and in addition to, the normal calculation of insurers' own solo capital requirements.

In the case of an authorised insurer that is itself a parent undertaking or has a participating interest of at least 20 per cent. in at least one other financial firm (a "related undertaking"), an adjusted capital calculation must be carried out to provide for deficits in the regulated related undertaking and to exclude all assets deriving from related undertakings which are either inadmissible under the FSA's rules for valuing assets (e.g. goodwill) or fall within other disallowed categories such as assets backing the margin of capital adequacy requirements of related undertakings.

Money laundering

All life insurance firms authorised by the FSA are required to observe certain administrative procedures and checks which are designed to prevent and detect money laundering. These obligations are principally derived from the Money Laundering Regulations 2007 (SI 2007/2157) ("**MLRs**") which gave effect in the UK to the Third Money Laundering Directive (2005/60/EC) ("**MLD3**"). Broadly, such firms are required to apply a risk-based approach to customer due diligence whereby, depending on the risk of money laundering in the circumstances of each case, the firm must apply appropriate measures to identify its customers and verify the information obtained through identification procedures. The FSA published the results of a thematic review, focussing on how banks and building societies deal with high-risk customers, on 22 June 2011. The FSA expects banks and firms in other sectors to consider the weaknesses identified in this review, including some banks entering high-risk business relationships without adequate controls, along with the good and poor practice identified in its new financial crime guide (published on 9 December 2011 as part of PS11/15).

Following a review and a consultation by HM Treasury in June 2011, HM Treasury published the formal response to its consultation on 17 July 2012, together with an updated (and final) impact assessment (dated 20 June 2012). It has decided to take forward most of the proposed amendments to reduce the regulatory burden imposed by the MLRs, while at the same time strengthening the overall anti money laundering regime. Most of the changes HM Treasury has decided to make to the MLRs following its review and consultation came into force on 1 October 2012, by way of the Money Laundering (Amendment) Regulations 2012.

Under the Money Laundering Regulations 2007, life insurance firms are also under an obligation to maintain records of information collected for the purpose of verifying the identity of their customers and of transactions conducted with or for those customers. Generally, these records must be kept for a period of at least five years following the end of the business relationship with the customer. Failure to maintain the necessary procedures is a criminal offence. Reporting obligations in respect of suspected money laundering activities may also arise under other legislation, including the UK Proceeds of Crime Act 2002 (as amended).

On 11 April 2012, the European Commission published a report setting out the changes it is considering making to MLD3 and to its money-laundering framework. The changes include, *inter alia*, clarification of how supervisory powers apply in cross-border situations; greater harmonisation of sanctions for non-compliance; possible clarification of the customer due diligence requirements; and incorporating more risk-based elements in the framework. The European Commission invited comments on the possible changes until 13 June 2012. On 31 July 2012, the Commission published a feedback statement summarising the responses to its April 2012 report on the application of MLD3. It is expected to bring forward its legislative proposal for amending MLD3 to create 'MLD4' and to hold a public hearing on the MLD4 proposal. The Commission expects to negotiate and adopt the MLD4 proposal during 2012/13.

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 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.

Financial Supervision in Europe

The European Commission has recently created a new European supervisory framework for the financial system. This involves the establishment of a two-tier pan-European regulatory structure in order to remedy the perceived weaknesses in the EU's previous supervisory framework. This new regulatory structure came into effect on 1 January 2011.

Firstly, at the "macro-prudential" level a European Systemic Risk Board ("**ESRB**") monitors and assesses risks to the European financial system as a whole. The ESRB is intended to have the power to issue recommendations and warnings to Member States (including the national competent authorities) and to the European Supervisory Authorities (see below). The ESRB is also charged with collecting and exchanging relevant information from and between the new European Supervisory Authorities and Member States (including national competent authorities) and with the identification and prioritisation of systemic risks.

Secondly, at the "micro-prudential" level a European System of Financial Supervisors ("**ESFS**") consisting of three new European Supervisory Authorities. The new European Supervisory Authorities — the European Banking Authority ("**EBA**"), the European Insurance and Occupational Pensions Authority ("**EIOPA**"), and the European Securities and Markets Authority ("**ESMA**") — replaced the three European Committees in these areas, which had advisery powers only, namely the Committee of European Banking Supervisors ("**CEBS**"), the Committee of European Insurance and Occupational Pensions Supervisors ("**CEIOPS**") and the Committee of European Securities Regulators ("**CESR**"). The three new authorities have powers to set technical standards that are binding across Europe, and in certain circumstances to mediate between, or to intervene in the practices of, individual national regulatory authorities.

The creation of the European Supervisory Authorities is indicative of a drive towards much greater centralisation of supervisory powers within Europe and, in due course, may mark the beginnings of the creation of a single European regulatory rulebook.

Future developments

Solvency II Directive

The new Solvency II Directive will replace (among other legislation) the current Non-Life Directives, the Recast Life Directive, the Reinsurance Directive, the Winding-Up Directive and the Insurance Groups Directive. The new framework is intended to introduce more sophisticated and risk sensitive standards to capital requirements for insurers in order to ensure sufficient capital is held to protect policyholders from adverse events, market risk, credit risk and operational risk. Solvency II will be based on three pillars: capital requirements, supervisory review process and public reporting and disclosure. It will also cover valuations, the treatment of insurance groups, and the definition of capital and overall level of capital requirements.

Solvency II is being developed in accordance with the four-level Lamfalussy process. The "Level 1" Framework Directive was formally adopted by the European Council on 10 November 2009 and had an implementation date of 31 October 2012. However, this date has been amended by the Amending Directive which was adopted by the European Parliament on 3 July 2012 and the European Commission on 12 September 2012. There will now be a split Solvency II implementation (known as "**bifurcation**"), with 30 June 2013 as the transposition date for Member States and 1 January 2014 as the implementation date for firms.

The European Commission published the draft Omnibus II Directive on 19 January 2011. If enacted, this Directive will amend the Solvency II Directive to reflect the new roles of the European Supervisory Authorities (including, in relation to Solvency II in particular, EIOPA) as well as making a number of other changes described below. The European Commission proposal included a change to the implementation date for the Solvency II Directive to 1 January 2013. However, the final text of the Omnibus II Directive is yet to be agreed by the European Council and the European Parliament and both bodies proposed changes to the Omnibus II Directive which included moving full implementation of Solvency II for firms to 1 January 2014. The uncertainty in relation to the timing of the implementation of Solvency II will not be resolved until the Omnibus II Directive is agreed. The European Parliament is currently expected to vote on the Omnibus II Directive in March 2013.

The European Commission has initiated the process of developing detailed rules that will expand on the high-level principles of the Solvency II Directive, referred to as "Level 2 implementing measures" (which will be known as "delegated acts" once the Omnibus II Directive has been adopted). It is expected that the final adoption of the implementing measures will not take place until after the Omnibus II Directive is finalised.

The changes to the Solvency II Directive to be introduced by the Omnibus II Directive include giving powers to EIOPA to propose 'binding technical standards' or 'implementing technical standards', which will be adopted by the European

Commission and will be binding on firms. EIOPA expects that the full package on Solvency II reporting and disclosure will be available later in 2012.

At "Level 3", non-binding standards and guidance will be issued by EIOPA. EIOPA has advised that it will not be able to publicly consult on the Level 3 measures until the European Commission has published its Level 2 proposals. However, EIOPA has been allowed to publish consultation papers on Level 3 guidelines on the "own risk and solvency assessment" and on reporting and disclosure, which were issued in November 2011, along with an impact assessment on the Solvency II reporting package. EIOPA explained in its work programme for 2012, published on 23 January 2012, that its adoption of the Level 3 measures is subject to the adoption of the Omnibus II Directive and the date of approval of the European Commission's Level 2 measures. In its work programme for 2013, published on 4 October 2012, EIOPA has stated that it is currently consulting on the technical standards and guidelines and expects to finalise them in 2013. At "Level 4", the European Commission will monitor compliance by Member States with the legislation and guidance and take enforcement action where necessary. It will be assisted in this work by EIOPA.

A central aspect of Solvency II is the focus on a supervisory review at the level of the individual firm. UK insurers will be allowed to make use of internal economic capital models to calculate capital requirements if those models are first approved by the FSA. The FSA has established a pre-application procedure for final internal models to enable those firms who wish to make use of them to submit applications for approval at an appropriate stage (the FSA started to accept internal model applications on 30 March 2012). In addition, Solvency II requires firms to develop and embed an effective risk management system as a key part of running the firm; the FSA has been carrying out thematic reviews of risk management with major UK insurers as part of its ICAS solvency regime for some time. However further development and documentation in this area is still expected to be necessary.

In addition to amending the implementation date of Solvency II, the draft Omnibus II Directive seeks to make further amendments to the Level 1 Solvency II Directive published in 2009. The proposed amendments include the granting of power to the European Commission to specify transitional measures in a number of areas, including valuation, governance requirements, the determination and classification of own funds and international convergence with Solvency II requirements (third country equivalency tests), and the granting of power to EIOPA to set binding technical standards in regard to Solvency II to be followed at national level. However, although originally intended to make minimal changes to Solvency II, it now seems likely that the Omnibus II Directive will make a number of substantive changes to the Solvency II Directive itself. The European Parliament has proposed elevating a number of areas expected to be dealt with in the Level 2 measures into the Level 1 text, including the detail of the criteria for temporary third country equivalence, the 'matching premium' and the transitional measures.

In November 2011 the FSA published its first consultation paper (CP11/22) on the transposition of Solvency II. Although the Omnibus II Directive has not yet been adopted, the FSA has advised that there is sufficient certainty on the amendments that the Omnibus II Directive will make to Solvency II to consult on rules transposing Solvency II. On 11 July 2012, the FSA published its second consultation paper on transposing the Solvency II Directive (CP12/13, also known as CP2). CP12/13 outlines the FSA's proposed rules and guidance in areas that were not covered, or were only partly covered, in its first consultation paper. The FSA plans to collate the feedback from CP11/22 and CP12/13, together with the conduct elements of Solvency II contained in CP11/23, in a policy statement it intends to publish later in 2012 or in early 2013. However, this is dependent on the adoption of the proposed Omnibus II Directive and the final Solvency II Level 2 measures, as well as the legislative timetable for UK regulatory reform and FSA Handbook designation. Further consultations may be required once the Omnibus II Directive is adopted and the Level 2 measures are finalised. The FSA will provide further details when it publishes the policy statement.

Transposition of Solvency II into UK law will require a combination of changes to primary legislation and changes to the FSA Handbook on which the FSA must consult. The approach to transposition which is set out in the consultation paper "Transposition of Solvency II – Part 1" (CP11/22), published in November 2011, envisages the creation of a new handbook SOLPRU and a number of amendments to existing handbook provisions. The FSA also published consultation papers on linked long-term insurance business (CP11/23) and the distribution of retail investments (CP11/25), which consult on changes to COBS, and its quarterly consultation paper (CP11/27) which consults on changes to ICOBS as a result of Solvency II transposition. These consultations have now closed and with the exception of CP11/25, for which a policy statement has been published (PS12/5), it is too early to determine the outcome and the FSA has not yet published policy statements to these consultations. The FSA published PS12/5 on RDR adviser charging and Solvency II disclosures on 22 March 2012. This policy statement summarises and includes the text of the Solvency II disclosure rules which are expected to come into effect from 1 January 2014. These rules are currently stated as being 'near final' as they contain glossary definitions that will not be confirmed until the main Solvency II rules are finalised. Nevertheless, the FSA has confirmed that the general application of the Solvency II disclosure rules will be the same as for the Consolidated Life Directive (2002/83/EC). In addition, as part of its Solvency II transposition work the FSA has still to consult on the SOLPRU application rules, national specific reporting templates, and the extent to which COBS 20 (with-profits) and some SYSC rules may need to be retained.

There is significant uncertainty regarding the final text of the Level 2 implementing measures and the Omnibus II Directive, and hence the requirements of Solvency II. As a result there is a risk that the effect of the measures finally adopted could be adverse for the Friends Life group, including among other things, a potentially significant increase in

capital to support its business and costs associated with developing an internal model and enhanced risk management and governance framework.

Retail Distribution Review and proposals around Packaged Retail Investment Products

In June 2006 the FSA launched the RDR in response to recurrent problems in the market for the distribution of retail investment products. The RDR has since been a key retail priority for the FSA and complements its long-term work to ensure that firms treat their customers fairly.

In March 2010 the FSA published a policy statement (PS10/6) on delivering the RDR which set out the FSA's final rules and guidance to implement a number of the central aspects of the RDR. The FSA intends to implement these new rules and guidance through amendments to the FSA Handbook, with those changes planned to take effect from 31 December 2012 (although the phasing in of new capital rules for personal investment firms, which emerged from a review conducted in parallel to the RDR, has been deferred by two years and will now commence on 31 December 2013, with the full requirements due to be in place by 31 December 2015). Since March 2010, the FSA has concentrated on finalising its rules and guidance in respect of more peripheral aspects of RDR implementation. This has included ensuring that RDR principles are also introduced for providers of platform services that are used to buy and manage investments (final rules for which were set out in PS11/9, published in August 2011). In November 2011, the FSA published policy statements on RMAR data collection (PS11/13) and new product disclosure rules for firms (PS11/14), as well as consultation papers on the treatment of legacy assets (CP11/26), accredited bodies under the RDR regime (CP11/24) and adviser charging and Solvency II disclosures (CP11/25). PS12/5, published by the FSA in response to CP11/25, summarises and contains the final form of the rules on:

(a) facilitating payment of adviser and consultancy charges (to be adopted by the FSA with effect from 31 December 2012). PS12/5 confirms that both of the following forms of facilitating adviser charges are covered by the rules, that is, (i) paying the full amount received from the customer into the product and then deducting the amount(s) of the charge from it, and/or (ii) deducting the initial charge from the amount received from the customer and then paying the remainder into the investment product; and

(b) reporting investment amounts where payment of adviser charges or consultancy charges is being facilitated (applies to firms' first full reporting period after 31 December 2012). PS12/5 confirms that product providers that facilitate payment of adviser or consultancy charges should, for the purpose of 'Product Sales Data', report the amount actually invested in the product.

On 6 June 2012, the FSA published finalised guidance on the RDR (FG12/15). This guidance addresses the common points being raised by firms, with the aim of helping firms to implement the new requirements. Alongside the guidance, the FSA has also published a summary of the feedback it received to its consultation.

Implementation of the new rules is likely to have a significant impact on the investment advisery industry with increased compliance costs during the transitional period, as both product providers and intermediaries adapt their business models to comply with the new distribution regime.

In particular, under the new rules financial advisers will be able to describe themselves as `Independent' or `Restricted'. Advisers describing themselves as 'Independent' must conduct, and be able to demonstrate that they have conducted, a comprehensive and fair analysis over a wide range of products and provide unbiased and unrestricted advice to their client. The new rules will also have a permanent impact on insurers' and distributors' charging models. Except in relation to pure protection products, adviser firms will no longer be able to receive commission set by product providers in return for recommending their products, but will have to operate their own fee-based charging tariffs for advising clients.

Taken together, the RDR proposals are likely to affect the business models, and potentially therefore the profitability, of not only customer-facing distributor and adviser intermediary firms but also the insurance firms that provide underlying products which are distributed or recommended by those intermediary firms.

Following the publication of a provisional version on 3 July 2012, the Commission published the final version of its proposal for a regulation for a new key information document ("**KID**") to be provided to retail investors in relation to PRIPs on 9 July 2012. The investment product manufacturer will be responsible for preparing the KID and while product manufacturers may delegate the preparation of part or the whole of the KID to third parties, such as under a collaboration with distributors, they remain ultimately responsible for the document.

The proposal introduces the principle that all KIDs should have a standardised "look and feel" and contents designed to keep them focused on key information presented in a common way so as to promote comparability of information and its comprehension by retail investors. The person selling the product to retail investors (whether a distributor or the product manufacturer in the case of direct sales) must provide the KID to the potential investor in good time before a sale is transacted.

The legislative proposals for PRIPs are expected to be introduced through the revisions of the IMD2 and the MiFID (following the ongoing review of each). The Commission's proposal will now go to the European Parliament and the Council for their consideration under the co-decision procedure. Once they reach agreement, the Commission will carry

out detailed work on the implementing measures. The full proposal is currently expected to be in place by the end of 2014.

Such proposals are expected to have an impact on how PRIPs are manufactured and sold. For example, there are likely to be substantial costs associated with producing the required disclosure documents and it is clear that the responsibility (and therefore the cost) of doing so will fall exclusively on the product manufacturer. The PRIPs proposal will, accordingly, result in an operational, cost or other negative impact on the Life and Pensions Businesses and their distribution arrangements.

The indicative date for the European Parliament's plenary debate on the MiFID II legislative proposal is October 2012, (although adoption of MiFID II is not expected until 2015 at the earliest). The MiFID II proposals for selling practices in relation to non-insurance PRIPs suggested restrictions be imposed on the payment of commission to advisers (such restrictions being similar in nature to those proposed by the RDR). As the PRIPs regime is intended to harmonise the legislative framework for the distribution of all PRIPs, it is likely that similar restrictions on the payment of commissions will be proposed in due course to apply also to insurance-based PRIPs.

The final position in respect of the PRIPs proposals remains somewhat unclear and it remains to be seen whether the requirements relating to the pre-contractual disclosure and selling practices for PRIPs will go further than the reforms proposed under the RDR.

Insurance Mediation Directive

The IMD established a Europe-wide regime for intermediaries involved in the promotion, sale and administration of certain insurance products. In 2007 (two years after the transposition deadline), it became apparent that there was possibly a need to amend the IMD. The European Commission originally stated that it would carry out a review of the IMD in 2008, but this was postponed. In May 2009 it was announced that the review would take place during 2010. The timing of this review is in part due to the Solvency II Directive (discussed above) requiring the European Commission to propose revisions to the IMD to take into account the consequences of Solvency II for policyholders. In addition, the review aims to improve the legal clarity and certainty of the IMD.

The European Commission launched the IMD review in January 2010 by requesting technical advice from CEIOPS on revisions to the IMD (to be implemented by a directive known as "**IMD2**").

The technical advice requested included (among other things) a request for advice on the legal framework of IMD2, the scope of IMD2, professional requirements, third country insurance intermediaries, cross-border issues and the management of conflicts of interest and transparency. CEIOPS provided this advice in November 2010.

The European Commission published a consultation document on 26 November 2010. The consultation period closed on 28 February 2011. The European Commission published a summary of responses to its November 2010 consultation on 21 April 2011. A final report on the impact of the revision to the IMD (prepared by PwC Luxembourg for the European Commission, dated 23 May 2011) was published on 25 November 2011. This identified some areas of concern for participants in the UK insurance industry, which could lead to disruption and increased costs for businesses (for example, the proposed introduction of high-level conflicts of interest rules, including a potential ban on commission on all sales of insurance products, could impact upon distribution channels, which are dominated by intermediaries).

The European Commission had advised that it planned to adopt IMD2 in December 2011. However, on 3 April 2012 the European Commission published an updated document setting out its agenda and timetable for legislative proposals and non-legislative acts that it expects to adopt between 30 March 2012 and 31 December 2012. This document states that the European Commission expects to adopt and publish IMD2 in May 2012, with the new regime expected to come into force during the course of 2014 or 2015.

Following publication of a provisional version of its IMD2 legislative proposal on 3 July 2012, the Commission published the final version of the IMD2 legislative proposal on 9 July 2012. The Commission explained that IMD2 is designed to improve the regulation of the retail insurance market and the proposed directive aims to ensure a level playing field between all participants involved in the sale of insurance products, and to strengthen policyholder protection. IMD2 will be a minimum harmonisation directive. However, the minimum standards of the IMD will be raised significantly. The legislative proposal has been passed to the European Parliament and the Council of the European Union for their consideration under the co-decision procedure.

It is expected that the European Parliament and the Council of the European Union are likely to adopt IMD2 during 2013. Work on subsequent technical measures to give effect to a number of IMD2 provisions would start soon after that. The new regime is most likely to enter into force in 2015.

There is a risk that the measures finally adopted in IMD2 could be adverse for the Friends Life group.

The Test Achats Ruling

On 1 March 2011 the ECJ published its Test Achats Ruling. The ECJ has ruled that the exemption in Article 5(2) of the Gender Directive which allows insurers to use gender related factors in determining premiums and benefits under insurance policies, is incompatible with the prohibition on discrimination on the grounds of gender enshrined as a

fundamental right of the European Union, and is therefore invalid. This is significant for many insurers in Europe which use gender as a risk factor for pricing and making payouts for both general and life insurance policies. However, the ECJ has granted a transitional period of relief for implementation until 21 December 2012. The overall effect of this is that after that date it will be unlawful to use gender-related factors for determining premiums and benefits under insurance policies.

On 22 December 2011, the European Commission issued guidelines on the application of the Gender Directive to insurance in light of the Test Achats Ruling. These guidelines, which were published in the Official Journal of the EU(OJ) on 13 January 2012, are intended to help the insurance industry implement unisex pricing and aim to facilitate compliance with the Test Achats Ruling at national level.

On 17 July 2012, HM Treasury published the UK government's response to the Test Achats Ruling. Among other things, the government confirmed its approach of restricting changes to the Equality Act 2010 to repealing paragraph 22 of Schedule 3 of that Act. It confirms that no other changes will be made to the Equality Act as a result of the Test Achats Ruling. The government has indicated that it intends to work closely with the insurance industry during the transition to gender neutral pricing and it has requested further feedback from insurers and consumer groups on their initial observations after 21 December 2012.

On 18 July 2012, the FSA published a guide on the implications of the Test-Achats Ruling. It explained that the judgment means that, from 21 December 2012, insurers cannot use gender as a rating factor when pricing risk or paying benefits.

At this stage, despite the European Commission's guidelines, there remains considerable uncertainty as to the nature and extent of the impact of this ruling on the Friends Life group. This uncertainty is compounded by the fact that, as a general rule, there is much less predictability of outcome in the area of discrimination law than many other areas of the law (at least until there have been a number of decisions of the ECJ and the national courts which settle the main issues).

Insurance guarantee schemes

In 2010 the European Commission published a proposal concerning the introduction of a pan-European regime harmonising the existence and features of insurance guarantee schemes ("**IGSs**") to be adopted in each EEA member state. IGSs are usually industry-funded schemes, designed to respond to funding shortfalls in the event of an insurer getting into financial distress. In October 2011 the European Parliament published a resolution in response to the European Commission's proposals calling on the European Commission to put forward a proposal for a directive on IGSs to complement Deposit Guarantee Schemes, Investor Compensation Schemes and Solvency II.

On 24 July 2012 EIOPA published a report (dated 25 May 2012) on the role of IGSs in the winding-up procedures of insolvent insurance undertakings in the EU and EEA. The report summarised the findings of a questionnaire sent to EU and EEA members about their existing IGS arrangements. EIOPA suggested in that report that any future Insurance Guarantee Schemes Directive ("**IGSD**") should provide member states with sufficient flexibility to adapt the directive's requirements to fit in with their national frameworks.

The Commission is expected to publish a legislative proposal for the IGSD in 2013.

TAXATION

The following discussion is a summary of the current taxation treatment of payments of interest on the Subordinated Notes under tax law in the United Kingdom. The discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase the Subordinated Notes. The discussion is based on the tax laws of the United Kingdom and the published practice of HM Revenue & Customs (which may not be binding on HM Revenue & Customs) as in effect on the date of this Prospectus, which are subject to change, possibly with retroactive effect. The discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder and relates only to the position of persons who are absolute beneficial owners of their Subordinated Notes and may not apply to certain classes of persons such as dealers or certain professional investors. The discussion does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than that discussed should consult their professional advisers.

United Kingdom Taxation

For so long as the Subordinated Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007, payments of interest on the Subordinated Notes may be made without withholding or deduction for or on account of United Kingdom 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 (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and are admitted to trading on the London Stock Exchange.

Interest on the Subordinated Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Subordinated Notes is paid and when that interest is paid the company which makes the payment reasonably believes that the person beneficially entitled to the interest is (a) a company resident in the United Kingdom or (b) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits or (c) a partnership each member of which is a company referred to in (a) or (b) above or a combination of companies referred to in (a) and (b) above, provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, interest will generally be paid under deduction of income tax at the basic rate (currently 20 per cent.), subject to any 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.

Persons in the United Kingdom paying or crediting interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person beneficially entitled to the interest and, in certain circumstances, such information may be provided to the tax authorities in other countries.

Where interest on the Subordinated Notes has been 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.

The interest on the Subordinated Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment even if paid without withholding or deduction. However, such interest received without withholding or deduction is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom in connection with which the interest is received or to which the Subordinated Notes are attributable, in which case (subject to certain exemptions) such interest may be subject to United Kingdom tax.

Noteholders should be aware that the provisions relating to Additional Amounts referred to in Condition 9 of the Terms and Conditions of the Subordinated Notes apply only where tax is required to be withheld or deducted at source, and so are not relevant in the event that HM Revenue & Customs seeks to assess the person entitled to the relevant interest on any Subordinated Notes directly to United Kingdom income tax.

However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

If the Guarantor makes any payments in respect of interest on the Subordinated Notes (or other amounts due under the Subordinated Notes other than the repayment of amounts subscribed for the Subordinated Notes) there is a risk that such payments may be paid under deduction of income tax at the basic rate (currently 20 per cent.) subject to such relief

as may be available (including under the provisions of any applicable double taxation treaty). Such payments by the Guarantor may not be eligible for the exemption for securities listed on a recognised stock exchange as described above.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise, as it is understood Belgium has done) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed with the EU to adopt similar measures (a withholding tax system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend the Directive or broaden the scope of the requirements described above.

If a payment were to be made or collected through a 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 under the Directive, neither the Issuer, the Guarantor nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Subordinated Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Stamp taxes

Noteholders (wherever resident) should not be liable to UK stamp duty or stamp duty reserve tax in respect of the issue to them of the Subordinated Notes, or on their subsequent transfer by delivery.

SELLING RESTRICTIONS

Pursuant to a Subscription Agreement dated on or around 8 November 2012 (the "**Subscription Agreement**"), Barclays Bank PLC, Citibank International plc, HSBC Bank plc and RBC Europe Limited (the "**Joint Bookrunners**") have agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe for US$575,000,000 of the Subordinated Notes. The Joint Bookrunners are entitled to terminate and to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer and the Joint Bookrunners have agreed that placing commissions of 0.5 per cent. of the aggregate amount of the Subordinated Notes allocated to certain third party distributors may be payable to such third party distributors.

United States

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

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

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Subordinated Notes, (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 Subordinated Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Subordinated Notes 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 Subordinated Notes 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 Bookrunner has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Subordinated Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Subordinated Notes in, from or otherwise involving the United Kingdom.

Switzerland

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

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Issuer nor the Guarantor nor the Subordinated Notes has been or will be filed with or approved by any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority (FNMA), and investors in the Subordinated Notes will not benefit from protection or supervision by any such authority.

Hong Kong

Each Joint Bookrunner has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Subordinated Notes other than**:** (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of the laws of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

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

Singapore

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

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Subordinated Notes may not be circulated or distributed, nor may any Subordinated Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

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

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Subordinated Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

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

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

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

General

No action has been or will be taken by the Issuer or the Joint Bookrunners that would permit a public offering of the Subordinated Notes or possession or distribution of this Prospectus or other offering material relating to the Subordinated Notes in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This Prospectus does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Neither the Issuer, the Guarantor nor the Joint Bookrunners represent that the Subordinated Notes may at any time lawfully be sold in or from any jurisdiction in compliance with any applicable registration requirements or pursuant to an exemption available thereunder or assumes any responsibility for facilitating such sales.

USE OF PROCEEDS

It is intended that the net proceeds of the issuance of the Subordinated Notes will ultimately be applied first by the Friends Life group to enable the Issuer's ultimate parent company, Resolution Limited, to repay by the end of the year the deferred consideration notes issued by it to AXA UK as part of the acquisition of the AXA UK Life Business (in respect of which approximately £363m was outstanding as at the date of this Prospectus).

GENERAL INFORMATION

Listing

It is expected that listing of the Subordinated Notes on the Official List and admission of the Subordinated Notes to trading on the Market will be granted on or around 9 November 2012, subject only to the issue of a Temporary Global Note or Permanent Global Note. 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.

Authorisation

Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Subordinated Notes and the Guarantee relating to the Subordinated Notes. The creation and issue of the Subordinated Notes has been authorised by resolutions of the Issuer's Board passed on 25 September 2012 and 6 November 2012 and of a committee of the Issuer's Board passed on 12 October 2012 and the giving of the Guarantee relating to the Subordinated Notes by the Guarantor has been authorised by resolutions of the Guarantor's Board passed on 19 September 2012 and 6 November 2012 and of a committee of the Guarantor's Board passed on 10 October 2012.

Financial and Trading Position

There has been no material adverse change in the financial position or prospects of the Issuer, the Guarantor or of the Friends Life group since 31 December 2011 and there have been no significant changes in the financial or trading position of the Issuer, the Guarantor or of the Friends Life group since 30 June 2012 (the date to which the latest financial information incorporated into this Prospectus has been prepared).

Governmental, Legal or Arbitration Proceedings

None of the Issuer, the Guarantor and any member of the Friends Life group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor and/or the Friends Life group.

Expenses

The Issuer estimates that the expenses in connection with the admission to trading of the Subordinated Notes are expected to be approximately £3,000.

Yield

The yield on the Subordinated Notes will be 7.875 per cent. per annum calculated on an annual basis. The yield is calculated on the Issue Date on the basis of the issue price of the Subordinated Notes. This is not an indication of future yield.

Clearing

The Subordinated Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code. The International Securities Identification Number (ISIN) for the Subordinated Notes is XS0851688860.

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.

Material Contracts

Subject to the information set out below, the material contracts entered into by the Issuer or the Guarantor or a member of the Friends Life group are those listed in paragraph (ix) of the section entitled "*Documents Incorporated by Reference*" on pages 5 to 6 of this Prospectus, summaries of which are incorporated into this Prospectus by reference.

Certain non-material amendments were made to the Share Purchase Agreement, the Framework Agreement, the Transitional Services Agreement and the Master Agreement in relation to Asset Management on 15 September 2010.

In relation to paragraph 8 under (E) of the Rights Issue Prospectus (pages 302 to 303) entitled the "Friends Provident Facility", it is noted that the AXA Acquisition was completed on 15 September 2010 and that therefore, in accordance

with the terms of the Friends Provident Facility, the amount available for drawing under the Friends Provident Facility increased from £300 million to £500 million. Furthermore, now that completion of the AXA Acquisition has occurred, the Issuer may elect to extend the maturity date of the Friends Provident Facility from 24 June 2013 for two further 12 month periods in accordance with the terms of the Friends Provident Facility. The Friends Provident Facility was amended pursuant to an Amendment and Restatement Deed dated 23 August 2011, whereby, *inter alia*, the Guarantor became the guarantor under the Friends Provident Facility in place of Friends Life FPG Limited.

On 15 December 2010 the Issuer was substituted for Friends Life FPG Limited as the issuer of the £300,000,000 6.875 per cent. Step-up Tier One Insurance Capital Securities (of which £209,895,000 in principal amount was outstanding as at 31 December 2011) and the £500,000,000 6.292 per cent. Step-up Tier One Insurance Capital Securities (of which £267,837,000 in principal amount was outstanding as at 31 December 2011) (together, the "**STICS**"), which accordingly now constitute unsecured and subordinated securities of the Issuer. The STICS continue to be guaranteed on an unsecured and subordinated basis by the Guarantor. The equivalent debt securities issued by the Guarantor in return for substantially all of the proceeds of the STICS having been invested in it are now owned by the Issuer.

On 16 December 2010 the Issuer was substituted for Friends Life FPG Limited as the issuer of the £161,713,000 12 per cent. Fixed Rate Guaranteed Subordinated Notes due 2021 (of which the whole principal amount was outstanding as at 31 December 2011, the "**2009 LT2 Notes**"), which accordingly now constitute unsecured and subordinated securities of the Issuer. The 2009 LT2 Notes continue to be guaranteed on an unsecured and subordinated basis by the Guarantor.

With effect from 1 February 2011, the Friends Life group and Capita have agreed an amendment to the services agreement between them to reflect the change in its scope following the AXA Acquisition and the fact that the services provided by Capita to the AXA UK Retained Business is now recorded in a separate contract between Capita and the AXA UK Retained Business. Over the remaining 13 years of the amended Capita Agreement the fees payable to Capita by the Friends Life group are estimated to be a total of £400 million.

On 21 April 2011 the Issuer issued the £500,000,000 8.25 per cent. Fixed Rate Guaranteed Subordinated Notes due 2022 (of which the whole principal amount was outstanding as at 31 December 2011, the "**2011 LT2 Notes**"). The 2011 LT2 Notes are guaranteed on a subordinated basis by Friends Life Limited and qualify as lower tier two capital of the Issuer. Unless previously redeemed or purchased and cancelled, the 2011 LT2 Notes will mature on the 21 April 2022 (the "**2011 LT2 Maturity Date**") and shall, subject to the satisfaction of an Issuer solvency condition and that no regulatory deficiency redemption deferral event having occurred, will be redeemed on the 2011 LT2 Maturity Date. Prior to any notice of redemption before the 2011 LT2 Maturity Date or any substitution, variation or purchase of the 2011 LT2 Notes, the Issuer will be required to have complied with regulatory rules on notifications to, or consent from, (in either case, if and to the extent required) the FSA and to be in continued compliance with Regulatory Capital Requirements applicable to it. Subject to that, and to satisfaction of the Issuer solvency condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, the 2011 LT2 Notes may be redeemed at the option of the Issuer upon the occurrence of certain specified events relating to taxation or to a regulatory event at their principal amount together with any accrued but unpaid interest to (but excluding) the date of redemption and any arrears of interest and as otherwise more particularly described in Condition 6 of the 2011 LT2 Notes terms and conditions. The making of payments by the Guarantor under the guarantee are subject to the satisfaction of certain conditions. The 2011 LT2 Notes bear interest at 8.25 per cent. per annum, payable annually in arrear on 21 April in each year.

The 2011 LT2 Notes are direct, unsecured and subordinated obligations of the Issuer and will, in the event of the winding-up of the Issuer or in the event of an administrator of the Issuer being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all senior creditors of the Issuer but shall rank at least *pari passu* with all other obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of any such capital constitute, *pari passu* securities and shall 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 any such capital constitute, junior securities. The obligations of the Guarantor under its guarantee of the 2011 LT2 Notes constitute direct, unsecured and subordinated obligations of the Guarantor and will, in the event of the winding-up of the Guarantor or in the event of an administrator of the Guarantor being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all guarantor senior creditors but shall rank at least *pari passu* with all claims of holders of obligations of the Guarantor which constitute, or would but for any applicable limitation on the amount of any such capital constitute, Guarantor *pari passu* securities and all claims relating to a guarantee or similar undertaking given by the Guarantor of another person which constitute, or would but for any applicable limitation on the amount of such capital constitute, Guarantor *pari passu* securities and shall 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 Guarantor junior securities and all claims relating to a guarantee or similar undertaking given by the Guarantor of another person which would constitute, or would but for any applicable limitation on the amount of such capital constitute, Guarantor junior securities.

On 8 November 2011 Friends Provident Management Services Limited ("**FPMS**"), a member of the Friends Life group, entered in to an agreement for the provision of insurance intermediary services and certain information technology services with Diligenta Limited (the "**Diligenta Agreement**"), which outsources Friends Life group policy administration and IT services for WP, annuity, legacy protection and UK wealth business lines. As a result and taking account of those services already outsourced within the Issuer's group, the Heritage business unit will be essentially

outsourced for policy administration and IT services. The agreement also covers IT service outsourcing for the corporate benefits, protection and international businesses. The agreement is effective from 1 March 2012 and will continue, unless terminated, for an initial term of 15 years (the "**Initial Term**"). Fees payable by Friends Provident Management Services Limited to Diligenta over the Initial Term are estimated at approximately £1.37 billion. Following the expiry of the Initial Term, the agreement will automatically renew on successive five year terms, unless terminated by FPMS on 12 months prior written notice to Diligenta. During the Initial Term, Diligenta may only terminate the agreement where FPMS has failed to pay due and undisputed charges under the agreement and fails to do so within 30 days after written notice of such failure from Diligenta. FPMS may terminate the agreement for convenience at any time on six months notice as well as in a number of circumstances (including material and/or persistent failure to provide the services to the agreed levels, other material breaches of the agreement and where Diligenta is subject to certain insolvency events). On termination, certain termination charges (including termination exit and service fees) are payable by FPMS (and the extent of such payments would be dependent on the manner and date of termination).

In light of the Diligenta Agreement, the Friends Life group has sought to renegotiate the terms of a number of its third party IT services arrangements. In particular, on 1 March 2012 Diligenta Limited acceded as an additional party to the agreement between FPMS and Wipro Limited for the provision of IT services dated 10 February 2009 (see paragraph (viii)(M) of the section entitled *"Documents Incorporated by Reference"* on pages 5 to 6 of this Prospectus) and as a result Diligenta has now assumed the majority of the rights and obligations of FPMS under that agreement.

Save for such material contracts, there are no further material contracts (not being contracts entered into in the ordinary course of business) to which any member of the Friends Life group is a party which: (i) are, or may be, material to the Friends Life group and which were entered into in the two years immediately preceding the publication of this Prospectus; or (ii) contain obligations or entitlements which are, or may be, material to the Friends Life group as at the date of this Prospectus.

Third party information

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer and the Guarantor are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

Documents available for inspection

Copies of this Prospectus are available for viewing at the National Storage Mechanism: www.hemscott.com/nsm.do.

For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:

(a) the memorandum and articles of association of the Issuer and the Guarantor;

(b) the Paying Agency Agreement;

(c) the Trust Deed; and

(d) the financial statements listed in paragraphs (i) to (viii) in the section entitled "*Documents incorporated by reference*" on pages 5 to 6 of this Prospectus.

In addition, this Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchnage/news/market-news/market-news-home.html.

Auditors

Ernst & Young LLP, member of the Institute of Chartered Accountants in England and Wales, 1 More London Place, London SE1 2AF have audited, and rendered unqualified audit reports on, the accounts of the Issuer and each of the financial statements of the members of the Friends Life group listed on page 5 of this Prospectus for the year ended 31 December 2011. The auditors have no material interest in either the Issuer or the Guarantor or any other member of the Friends Life group.

The following definitions apply throughout this Prospectus unless the context otherwise requires:

2009 LT2 Notes	means the £161,713,000 12 per cent. Fixed Rate Guaranteed Subordinated Notes of the Issuer due 2021;
2011 LT2 Notes	means the £500,000,000 8.25 per cent. Fixed Rate Guaranteed Subordinated Notes of the Issuer due 2022;
Acquisitions	means the AXA Acquisition and the BHA Acquisition;
AmFamily	means AmFamily Takaful Berhad;
AmLife	means AmLife Insurance Berhad;
APE	means Annual Premium Equivalent and represents annualised new regular premium plus 10 per cent. of single premiums;
AXA	means AXA S.A., a company incorporated in France (trade and company registration number 572.093.920 RCS Paris);
AXA Acquisition	means the acquisition by the Issuer of the AXA UK Life Business;
AXA Group	means AXA and its subsidiaries;
AXA UK Life and Savings Business	means all the life and savings business that was carried on by AXA UK plc and its subsidiaries and subsidiary undertakings in the UK prior to the AXA Acquisition;
AXA UK Life Business	means Friends ASLH Limited and its subsidiaries as at 15 September 2010 including, FLWL and its subsidiaries;
AXA UK Retained Business	means that part of the AXA UK Life and Savings Business which is not the AXA UK Life Business;
BHA	means Friends Life BHA Limited (formerly known as Bupa Health Assurance Limited), a company incorporated in England and Wales (company number 02774803);
BHA Acquisition	means the acquisition by the Guarantor of the entire issued share capital and business of BHA;
Board	means the board of directors of the Issuer;
Bupa Group	means The British United Provident Association Limited and its subsidiaries;
Capita	means Capita Life & Pensions Regulated Services Limited, a company incorporated in England and Wales (company number 02424853);
CEIOPS	means the Committee of European Insurance Occupational Pensions Supervisors;
Clearstream, Luxembourg	means Clearstream Banking, société anonyme;
COBS	means the New Conduct of Business Sourcebook, part of the FSA Handbook;
Common Safekeeper	means the common safekeeper for Euroclear and Clearstream, Luxembourg;
Couponholder	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
CRR	means the Capital Resources Requirement, calculated in accordance with INSPRU;
Disclosure and Transparency Rules	means the Disclosure and Transparency Rules made by the UKLA under Part VI of FSMA, as amended from time to time;
EBC	means employee benefit consultant;
ECR	means the Enhanced Capital Requirement, calculated in accordance with INSPRU;
EEA	means the European Economic Area;

EIOPA	means the European Insurance and Occupational Pensions Authority;
EU	means the member states of the European Union;
Euro or €	means the lawful single currency of the European Monetary Union;
Euroclear	means Euroclear Bank S.A./N.V.;
FCA	means the Financial Conduct Authority;
Financial Services Businesses	means companies and/or businesses in the life assurance, asset management, general insurance, banking and diversified general financial sectors or certain of those sectors, as the context may require;
Fitch	means Fitch Ratings Ltd.;
FLI	means Friends Life Investments Limited, a company incorporated in England and Wales (company number 07324371);
FLWL	means Friends Life WL Limited (formerly Winterthur Life UK Limited), a company incorporated in England and Wales (company number 03116645);
FOS	means the Financial Ombudsman Service;
fpb	means Financial Partners Business AG;
FPC	means the Financial Policy Committee;
FPIL	means Friends Provident International Limited, a company incorporated in the Isle of Man (company number 011494C);
FPPS	means the Friends Provident Pension Scheme;
Framework Agreement	means the framework agreement dated 24 June 2010 relating to AXA UK plc's reorganisation of its UK group corporate structure to separate the assets and entities comprising the AXA UK Life Business acquired and to be acquired by the Issuer under the Share Purchase Agreement from the assets and entities comprising the AXA UK Retained Business;
Friends ASLH Limited	means Friends ASLH Limited (formerly known as AXA Sun Life Holdings Limited), a company incorporated in England and Wales (company number 03479251);
Friends Life or Friends Life group	means the Issuer and its subsidiaries from time to time;
Friends Life and Pensions Limited	means Friends Life and Pensions Limited (formerly known as Friends Provident Pensions Limited and Friends Provident Corporate Pensions Limited), a company incorporated in England and Wales (company number 00475201);
Friends Life Assurance Society Limited	means Friends Life Assurance Society Limited (formerly known as Sun Life Assurance Society plc), a company incorporated in England and Wales (company number 00776273);
Friends Life Company Limited	means Friends Life Company Limited (formerly known as AXA Sun Life plc), a company incorporated in England and Wales (company number 03291349);
Friends Life FPG Limited	means Friends Life FPG Limited (formerly known as Friends Provident Group plc), a company incorporated in England and Wales (company number 06861305);
Friends Life FPL Limited	means Friends Life FPL Limited (formerly known as Friends Provident Limited and Friends Provident plc), a company incorporated in England and Wales (company number 04113107);
Friends Life Investments Limited	means Friends Life Investments Limited (formerly known as Friends Life Services Limited and Friends Swap (FLS) Limited), a company incorporated in England and Wales (company number 07324371);
Friends Life Investment Solutions Limited	means Friends Life Investment Solutions Limited (formerly known as (Friends Provident Investment Solutions Limited), a company incorporated in England and Wales (company number 06389025);

Friends Life Services Limited	means Friends Life Services Limited (formerly known as AXA Sun Life Services plc), a company incorporated in England and Wales (company number 03424940);
FSA	means the UK Financial Services Authority and any successor regulatory authority or authorities as applicable as regulator of the Friends Life group;
FSA Handbook	means the FSA Handbook of Rules and Guidance;
FSCS	means the Financial Services Compensation Scheme, a fund established under FSMA to compensate customers of certain UK Financial Services Businesses in the event of any such business's insolvency;
FSMA	means the Financial Services and Markets Act 2000, as amended from time to time;
GENPRU	means the General Prudential Sourcebook, part of the FSA Handbook;
Guarantor	means Friends Life Limited (formerly known as Friends Provident Life and Pensions Limited), a company incorporated in England and Wales (company number 04096141);
Heritage Business	means the heritage business unit of the UK Life and Pensions Business of Friends Life;
HMRC	means HM Revenue & Customs;
HMT	means HM Treasury;
ICA	means an Individual Capital Assessment;
ICAS	means the Individual Capital Adequacy Standards framework, the framework used by the FSA to calculate the individual capital requirements of each financial firm covered by the FSA's Prudential Sourcebook;
ICOBS	means the Insurance: New Conduct of Business Sourcebook, part of the FSA Handbook;
IFA	means independent financial adviser;
IFRS	means International Financial Reporting Standards as adopted for use in the EU;
IMD	means the Insurance Mediation Directive (2002/92/EC);
IMD2	means the prospective revised version of the IMD;
Insurance Groups Directive	means the Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1988/78/EC) as amended by the European Union Directive on the Supplementary Supervision of Credit Institutions, Insurance Undertakings and Investment Firms in a Financial Conglomerate (2002/87/EC) and as implemented in the UK within IPRU(INS);
Interest Payment Date	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
Investor's Currency	means a currency or currency unit other than Sterling used by an investor in his financial activities;
IPRU (INS)	means the Interim Prudential Sourcebook for Insurers, part of the FSA Handbook;
Issue Date	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
Issuer	means Friends Life Group plc (formerly known as Friends Provident Holdings (UK) plc), a company incorporated in England and Wales (company number 06986155);
Life and Pensions Businesses	means the businesses carried on by the life insurance companies within the Friends Life group;
Listing Rules	means the Listing Rules made by the FSA under Part VI of FSMA as amended from time to time;

Lombard	means Lombard International Assurance S.A.;
London Stock Exchange	means the London Stock Exchange plc;
LTICR	means the Long-Term Insurance Capital Requirement, calculated in accordance with INSPRU;
Market	means the regulated market of the London Stock Exchange;
MCR	means the Minimum Capital Requirement, calculated in accordance with INSPRU;
Member State	means a member state of the European Union;
Money Laundering Regulations	means the Money Laundering Regulations (SI 2007 No. 2157) and the Guernsey Proceeds of Crime Law 2002 (as amended);
Noteholder	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
Official List	means the Official List maintained by the UKLA;
Option Agreement	means the option agreement entered into between the Issuer and Winterthur Life UK Holdings Limited (a subsidiary of AXA UK plc) relating to the acquisition of FLWL and its subsidiaries;
Part IV Permission	means permission from the FSA under Part IV of FSMA to effect or carry out contracts of insurance in the United Kingdom;
Part VII Transfer	means a court-sanctioned legal transfer of some or all of the policies of one company to another, governed by Part VII of FSMA;
Paying Agency Agreement	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
Paying Agent	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
PRA	Prudential Regulation Authority;
Prospectus	means this document;
Prospectus Directive	means Directive 2003/71/EC;
Prospectus Rules	means the Prospectus Rules made by the FSA under Part VI of FSMA, as amended from time to time;
RCM	means the Risk Capital Margin, calculated in accordance with INSPRU;
RCR	means the Resilience Capital Requirement, calculated in accordance with INSPRU;
RDR	means the FSA's Retail Distribution Review;
Rights Issue Prospectus	means the prospectus dated 29 June 2010 and published by Resolution Limited in connection with the rights issue of up to 1,370,315,835 new ordinary shares at 150 pence per share to raise approximately £2,055 million and the acquisition of the AXA UK Life Business by the Issuer;
RSL Group	means Resolution Limited, its subsidiary undertakings, Resolution HoldCo No 1 LP and any other limited partnership of which Resolution Limited is general partner from time to time and the companies or businesses they acquire (directly or indirectly) from time to time;
S&P	means Standard & Poor's Credit Market Services Europe Limited;
Sesame Bankhall	means Sesame Bankhall Group Limited a company incorporated in England and Wales (company number 03573352);
Share Purchase Agreement	means the share purchase agreement dated 24 June 2010 between, *inter alia*, the Issuer and AXA UK plc relating to the AXA Acquisition;
Sterling or £	means the lawful currency of the UK;

STICS	means the £300,000,000 6.875 per cent. Step-up Tier One Insurance Capital Securities of the Issuer (of which £209,895,000 in principal amount was outstanding as at 31 December 2011) and the £500,000,000 6.292 per cent. Step-up Tier One Insurance Capital Securities of the Issuer (of which £267,837,000 in principal amount was outstanding as at 31 December 2011);
Subordinated Notes	means the US$575,000,000 7.875 per cent. Reset Perpetual Subordinated Notes of the Issuer;
subsidiary or subsidiary undertaking	have the meanings given in section 1159 of the Companies Act 2006;
SYSC	means the Senior Management Arrangements, Systems and Controls Sourcebook;
Tax Law Change	has the meaning ascribed to it in the Terms and Conditions of the Subordinated Notes;
Terms and Conditions of the Subordinated Notes	means the terms and conditions of the Subordinated Notes contained in Part 2 of Schedule 1 to the Trust Deed and as set out on pages 44 to 68 of this Prospectus;
Threshold Conditions	means the minimum conditions which must be satisfied in order for a firm to gain and continue to have permission to carry out regulated activities in the United Kingdom;
TIP Wealth Portfolio	means the corporate trustee investment plans administered on the Embassy IT System and supported by the AMAPS policy administration system, issued by AXA SL prior to 1 November 2011;
Transitional Services Agreement	means the transitional services agreement dated 24 June 2010 under the terms of which each of the Issuer and AXA UK plc agrees to provide to the other certain transitional services including, but not limited to, information technology, finance/treasury, human resources, property and operational services;
Trustee	means The Law Debenture Trust Corporation p.l.c.;
UK Business	means the Protection, Corporate Benefits and Retirement Income segments of the UK Life and Pensions Business of Friends Life;
UK GAAP	means generally accepted accounting practices in the UK;
UKLA or UK Listing Authority	means the FSA in its capacity as competent authority under FSMA;
UK Life Project	means Resolution Limited's restructuring project in the UK life and asset management sectors;
UK or United Kingdom	means the United Kingdom of Great Britain and Northern Ireland;
US	means the United States of America, its members and possessions, any State of the United States and the District of Columbia and all other areas subject to its jurisdiction;
US$	means the lawful currency of the US;
WP	means with-profits; and
WPICC	means the capital component for "with-profits insurance business" of a realistic basis life firm, calculated in accordance with INSPRU 1.3.

All references to legislation in this Prospectus are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

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