Prospectus dated 18 April 2011

Friends Provident Holdings (UK) plc

(incorporated in England and Wales with limited liability with registered number 06986155)

£500,000,000
8.25 per cent. Fixed Rate Subordinated Notes
due 2022

guaranteed by

Friends Provident Life and Pensions Limited

(incorporated in England and Wales with limited liability with registered number 04096141)

The £500,000,000 8.25 per cent. Fixed Rate Subordinated Notes due 2022 guaranteed by Friends Provident Life and Pensions Limited (the "**Guarantor**") (the "**Subordinated Notes**") will be issued by Friends Provident Holdings (UK) plc (the "**Issuer**") on or about 21 April 2011 (the "**Issue Date**"). Subject to satisfaction of the Issuer Solvency Condition (as defined herein) and to no Regulatory Deficiency Interest Deferral Event (as defined herein) having occurred, payments of interest on the Subordinated Notes will be made annually in arrear on 21 April in each year. The first payment will be made on 21 April 2012. Payments on the Subordinated Notes or under the Guarantee 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".

Unless previously redeemed or purchased and cancelled, the Subordinated Notes will mature on 21 April 2022 (the "**Maturity Date**") and shall, subject to the satisfaction of the Issuer Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, be redeemed on the Maturity Date. Prior to any notice of redemption before the Maturity Date 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 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 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 (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 are 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 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 (as defined herein) 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 (as defined herein) 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 (as defined herein). 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 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 (as defined herein) 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 (as defined herein) 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 (as defined herein) 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.

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 Council on markets in financial instruments. The denomination of the Subordinated Notes shall be £100,000 and higher integral multiples of £1,000 up to and including £199,000.

The Subordinated Notes will initially be represented by a Temporary Global Note, without interest coupons, which will be issued in new global note form and will be delivered on or about 21 April 2011 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, without interest coupons, on or after a date which is expected to be 31 May 2011 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 £100,000 and higher integral multiples of £1,000 up to and including £199,000 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 page 4 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 "Risk Factors" set out on pages 13 to 37 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. For a description of certain restrictions on resale or transfer, see the section headed "Subscription and Sale" in this Prospectus.

The Subordinated Notes are expected to be rated BBB by S&P, Baa2 by Moody's and BBB+ by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Capitalised terms used but not otherwise defined in this Prospectus shall have the meanings given to them in the section headed "Definitions" on pages 91 to 96 of this Prospectus.

Joint Lead Bookrunners

Barclays Capital **RBC Capital Markets**

This document comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and its subsidiaries, including the recently acquired AXA UK Life Business (as defined herein) and BHA (as defined herein), 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 "*Documents Incorporated by Reference*" on page 4 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 "*Subscription and Sale*"). 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.

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 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;*

(ii) 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;*

(iii) 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;*

(iv) 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;*

(v) 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;*

(vi) the financial information relating to the AXA UK Life Business (including Winterthur Life UK Limited) for the financial year ended 31 December 2009, together with the accountants' report thereon, as set out on pages 158 to 228 of the Rights Issue Prospectus;

(vii) 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 149 of the Issuer's report and accounts 2010;

(viii) the audited consolidated financial statements of the Issuer for the period ended 31 December 2009, together with the audit report thereon, as set out on pages 11 to 92 of the Issuer's financial statements and directors' report 2009;

(ix) paragraph 3.1 of Section B of Part IV of the Rights Issue Prospectus (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 the "Principal terms of the Transitional Services Agreement";

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

E. paragraph 8 of Part III of the Rights Issue Prospectus (page 95), entitled the "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 the "Friends Provident Facility";

G. paragraph 8.2 under (G) of Part XV of the Rights Issue Prospectus (pages 310 to 311), entitled the "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 the "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), the "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), the "Life Reassurance Agreement";

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

L. paragraph 8.2 under (L) of Part XV of the Rights Issue Prospectus (page 313), the "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), the "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), the "Outsourcing arrangement with Capita Life & Pensions Regulated Services Limited".

*Items (i) to (v) listed above are solus financial statements which have been prepared on a UK GAAP basis and items (vi) to (viii) listed above are consolidated financial statements which have been prepared on an IFRS basis. Individual figures appearing in items (i) to (v), 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 (vi) to (viii) 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 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.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com/en-gb/pricesnews/marketnews/* and from the website of the Issuer at *www.friendslife.co.uk/investor/*.

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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 summary.

Issuer	*Friends Provident Holdings (UK) plc*
Guarantor	*Friends Provident Life and Pensions Limited*
Trustee	*The Law Debenture Trust Corporation p.l.c.*
Maturity Date	*Subject to satisfaction of the Issuer Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, the Subordinated Notes will be redeemed on 21 April 2022.*
Issue	*£500,000,000 8.25 per cent. Fixed Rate Subordinated Notes due 2022.*
Interest	*The Subordinated Notes will bear interest from (and including) the Issue Date at the rate of 8.25 per cent. per annum, payable annually in arrear on 21 April of each year (each an "**Interest Payment Date**"), as more particularly described in "Terms and Conditions of the Subordinated Notes".*
Interest Payment Dates	*Subject to satisfaction of the Issuer Solvency Condition and to no Regulatory Deficiency Interest Deferral Event having occurred, payments of interest will be made annually in arrear on 21 April of each year starting on 21 April 2012.*
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 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. 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.*

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(d). 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: (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. 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) the next Interest Payment Date which is not a Mandatory Deferral Interest Payment Date or, in respect of the Guarantor, on which no Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made;* *(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; or

(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 or as a result of a breach of the Issuer Solvency Condition, the Issuer shall not (a) declare or pay a dividend or other distribution in respect of any class of its share capital (save where the Issuer is not able to defer, pass or eliminate a dividend or other distributions), (b) make any other payment on (and will procure that no distribution or other payment is made on) any Junior 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, (c) repurchase, redeem or otherwise acquire shares of any class of the Issuer for cash (with the exception of repurchases in connection with share option or share ownership schemes for management or employees of the Issuer or its affiliates, in the ordinary course of business save where the Issuer is not able to defer, pass or eliminate any payment or any other obligation in respect of such repurchase, redemption or other acquisition), or (d) redeem, purchase, cancel, reduce or otherwise acquire any Junior Securities (save where the Issuer is not able to defer, pass or eliminate a dividend or other distributions or other payment or any other obligation in respect of such redemption, purchase, cancellation, reduction or other acquisition in accordance with the terms of the Junior 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 or as a result of a breach of the Guarantor Solvency Condition, then, the Guarantor shall not (a) declare or pay a dividend or other distribution in respect of any class of its share capital (save where the Guarantor is not able to defer, pass or eliminate a dividend or other distributions), (b) make any other payment on (and will procure that no distribution or other payment is made on) any Guarantor Junior 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), (c) repurchase, redeem or otherwise acquire shares of any class of the Guarantor for cash (with the exception of repurchases in connection with share option or share ownership schemes for management or employees of the Guarantor or its

affiliates, in the ordinary course of business save where the Guarantor is not able to defer, pass or eliminate any payment or any other obligation in respect of such repurchase, redemption or other acquisition), or (d) redeem, purchase, cancel, reduce or otherwise acquire any Junior Securities (save where the Guarantor is not able to defer, pass or eliminate a dividend or other distributions or other payment or any other obligation in respect of such redemption, purchase, cancellation, reduction or other acquisition in accordance with the terms of the Guarantor Junior 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(b) Arrears of Interest" and "Terms and Conditions of the Subordinated Notes — 5(c) Guarantor Deferral 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 Lower 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 of the Subordinated Notes (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 Lower Tier 2 Securities, as more particularly described in the section entitled ''Terms and Conditions of the Subordinated Notes — 6(c). Redemption, Substitution or Variation 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 Lower Tier 2 Securities, all as more particularly described in ''Terms and Conditions of the Subordinated Notes — 6(d). Redemption, Substitution, Variation and Purchase''.

*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 either (i) the Subordinated Notes outstanding at such time or (ii) any indebtedness outstanding at such time classified in the same category as the Subordinated Notes by the Supplementary Supervisor or the Group Supervisor, as appropriate, for the purposes of any transitional or grandfathering provisions under the Insurance Groups Directive, Solvency II or the Relevant Rules, as appropriate, are capable of counting,

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

(B) as Tier 2 Capital for the purposes of the Issuer, the Friends Life group, or any insurance undertaking within

	the Friends Life group whether on a solo, group or consolidated basis,
	except where in either case of (A) or (B) above 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 £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000 each with Coupons attached on issue. No definitive Subordinated Notes will be issued with a denomination below £100,000 or above £199,000.*
Denomination	*The Subordinated Notes will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000.*
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, Baa2 by Moody's and BBB+ by Fitch.*
	S&P is established in the European Union and has applied to be registered under the Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.
	Moody's is established in the European Union and has applied to be registered under the Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.
	Fitch is established in the European Union and has applied to be registered under the 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.

Prospective investors should note that the risks described below are not the only risks the Issuer, the Guarantor or the Friends Life group face. The Issuer and the Guarantor have described below only those risks relating to their operations that they consider to be material. There may be additional risks that they currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above.

Investing in the Subordinated Notes involves certain risks. An investment in the Subordinated Notes is suitable only for investors who have sufficient financial resources to sustain any losses from such investment and who are in a position to commit funds for a considerable period of time. Prospective investors should consider, among other things, the following:

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

Economic conditions and financial markets

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 the control of the Friends Life group. Global financial market conditions began deteriorating in August 2007, with further deterioration occurring during 2008, culminating in the Lehman Brothers bankruptcy. These events led to severe dislocation of financial markets around the world and unprecedented levels of illiquidity. 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. Recent events in certain EU countries, including the provision of emergency loan packages for Greece and Ireland, and concern over the status of other sovereign credits, particularly in the EU, the volatility of oil prices following the recent political developments in North Africa and the Middle East and the largest Japanese earthquake on record, and above target inflation in the UK in recent months means that there remains uncertainty about the strength and stability of economic recovery.

As a result of these 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 affects 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, 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, and 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 to reduce equity investments by the insurance funds or hold additional capital in respect of such holdings; and

(ix) an increase in technical provisions and capital requirements as a result of applying market related stress tests.

The global financial crisis led to recessionary conditions in the UK, the US, the EU and other parts of the world. The current fragile recovery may prove vulnerable to fiscal retrenchment as deficits are reduced and to interest rate rises as central banks attempt to normalise from prolonged historic lows. Renewed general deterioration in the UK or other major economies throughout the world, including, but not limited to, 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 may acquire and lead to lower realisations and increased write-downs and 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 from year to year, 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.

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 andlor other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by such counterpart and other financial institutions and counterparties

Counterparty risk exposure is a risk inherent in many businesses in the financial services sector, as financial institutions are inter-related as a result of trading and other relationships. Counterparties to such businesses include borrowers of loans, issuers of securities, customers, trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, insurers, reinsurers, brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other financial intermediaries and custodians. Such counterparties may not perform their obligations due to, among other things, bankruptcy, lack of liquidity, market downturns or operational failures, and the collateral or security they provide may prove inadequate to cover their obligations at the time of the default or there may be delays in accessing such collateral. The realisation of any such counterparty risk in a business within the Friends Life group could result in material losses for such business.

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.

Individual firms within the Friends Life group may wish to transfer insurance risk exposures or certain other risks to third parties through insurance or reinsurance arrangements or other analogous transactions. However, there can be no assurance that any such insurance or reinsurance will be available or that the terms on which it is available will be acceptable. In addition, counterparties to whom the business is exposed may be affected by unanticipated events that are not covered, or are inadequately covered, by the insurance or reinsurance provision of such business. Furthermore, such businesses will be exposed to the credit risk of their insurers or reinsurers.

Fluctuations in investment markets may adversely affect reported financial results, the Embedded Value 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. While the investment risk is often shared in whole or in part with policyholders, fluctuations in relevant investment markets will, directly or indirectly, adversely affect the reported financial results, the Embedded Value and the capital requirements of the insurance businesses where substantial falls in the value of investments may cause additional shareholder capital to be required or retained. 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.

Interest rate volatility can adversely affect insurance and asset management businesses carried on by the Friends Life group

Interest rates 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 volatility can adversely affect the businesses in the insurance and asset management 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 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 currently being experienced, bond yields typically decrease. This can mean that when bonds mature, the sums realised are reinvested into bonds with lower yields, which, in turn, decreases investment returns. The portfolio yield may therefore become nearer to any guaranteed returns of 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 or fully achieved there may be fluctuations in the difference between assets and liabilities as interest rates change. In addition, certain 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 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.

Currency fluctuations may adversely affect the business, results of operations andlor financial condition of the Friends Life group

The Issuer's and the Guarantor's directors' reports and financial statements and annual reports and accounts and the annual reports and accounts of the Friends Life group companies listed on page 6 of this Prospectus have been prepared in accordance with relevant accounting standards and stated in sterling. However, the revenues and expenses of parts of the Friends Life group's operations are earned and paid, and certain assets and liabilities are held, in several currencies in addition to sterling. Overseas revenues and expenses are translated into sterling at the applicable exchange rates for inclusion in the Friends Life group's annual report and accounts. The exchange rate between those currencies and sterling can fluctuate substantially, which may have a material adverse effect on the business, results of operations and/or financial condition of the Friends Life group. 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 is no assurance that such arrangements will be entered into or available at all times when the Issuer or the Guarantor wishes to use them or that they will be sufficient to cover the 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

Goodwill arising on business combinations is the future economic benefit arising from assets that is not capable of being individually identified and separately recognised. Goodwill and other investments and assets are reviewed at each reporting date to assess whether there are any circumstances that might indicate that they are impaired. If such circumstances exist, impairment testing is performed and any resulting impairment losses are charged to the income statement. The carrying value is adjusted to the recoverable amount. Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Recognised impairments and write-downs could have a material adverse effect on the results of operations or financial condition of the Friends Life group.

The Acquisitions

Following the AXA Acquisition and the BHA Acquisition, the Friends Life group comprises the AXA UK Life Business (excluding Winterthur Life UK Limited) and BHA, in addition to Friends Provident. The following risks arise from the Acquisitions and similar risks may arise from other acquisitions that the Issuer or the Guarantor may undertake in the future.

The Friends Life group will encounter numerous integration challenges as a consequence of the Acquisitions

The Friends Life group will encounter numerous integration challenges as a consequence of the Acquisitions, and implementing the AXA Acquisition will involve the separation of services provided to and by the AXA UK Retained Business and the AXA UK Life Business and similarly the BHA Acquisition will require the separation of services provided by the BUPA Group. In particular, Friends Provident's management and resources may be diverted from its core business activities due to personnel being required to assist in the process of integrating the AXA UK Life Business and BHA with Friends Provident's businesses. The integration process may lead to an increase in the level of errors made in administering the business with the possibility of an increase in client complaints and/or regulatory action. Furthermore, it may not prove possible to achieve the expected level of synergy benefits on integration of Friends Provident's businesses and the businesses of the AXA UK Life Business and BHA and/or the cost of delivering such benefits may exceed the expected cost.

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 and BHA may expose the Friends Life group's business to greater operational risks

The increase in scale of the Friends Life group as a result of the Acquisitions, particularly the AXA Acquisition, and the possible impact of the separation of the AXA UK Life Business from the AXA UK Retained Business and its subsequent integration into, and potential incompatibility with, Friends Provident's businesses and systems, may expose the business of the Friends Life group to greater operational risks, including risks relating to business continuity, IT systems integrity, customer service and data security, risk management, and internal control or compliance. Although there are management, risk, compliance and other internal controls in place which the Friends Life group believes are adequate and effective, the occurrence of any or all of the above risks, as a result of human error, misconduct or fraud, could result in material reputational damage, regulatory action, loss of customers, increased capital requirements in the future 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 Capita, and of transitional services by the AXA UK Retained Business and the BUPA Group

The AXA UK Life Business is dependent upon Capita for the continued performance of key customer services, policy administration, claims activity and related IT support. Although there are controls and oversight procedures in place in respect of Capita's performance which the Issuer and the Guarantor believes are sufficient, any service failures, defaults or failure to meet established performance benchmarks by Capita could result in operational problems for the Friends Life group. Further, as a result of the Acquisitions, some back-office and support services will be provided to the Friends Life group by the AXA UK Retained Business and the BUPA Group respectively 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 and the BUPA Group in

relation to their obligations under their respective transitional services agreements. Should AXA UK plc or the BUPA Group breach their obligations under the respective agreements, 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.

Certain arrangements to effect the separation of the AXA UK Life Business from the AXA UK Retained Business are conditional upon Court approval, and a failure to obtain such approval could have a material adverse effect on the effectiveness and the results of operations of the Friends Life group

Certain parts of the AXA UK Life Business will be separated from the AXA UK Retained Business, including arrangements relating to insurance business transfers to be effected pursuant to Part VII of FSMA. Such Part VII Transfers are conditional upon, *inter alia*, Court approval.

In the event that Court approval is not obtained or any of the Part VII Transfers fails for any reason, the Framework Agreement provides for alternative arrangements to be put in place. Although the Framework Agreement provides for consideration adjustments to be made in the event that particular Part VII Transfers fail, a payment might not be available to the Friends Life group when called for under such adjustment mechanism. Further, if the Friends Life group does not acquire all of the AXA UK Life Business which it expects to acquire as a result of the failure of a Part VII Transfer, the results of operations of the Friends Life group could be materially adversely affected.

As 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 Winterthur Life UK defined benefit pension 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 6 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 when called for.

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 indemnity might not be available when called for.

Strategic risks

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

The achievement of any or all of the Friends Life group's goals cannot be guaranteed and is subject to the risks set out herein and may be subject to other factors that are currently unforeseen and which may be beyond the Friends Life group's control. Failure to achieve any or all of the Friends Life group's strategic goals will 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 very competitive and competition is likely to intensify. The market includes a number of product providers that have 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 the Friends Life group's 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 with-profits 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 effectively 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.

The recent consolidation in the global financial services industry has also enhanced the competitive position of some of the Friends Life group's principal competitors in the UK by broadening the range of their products and services and their access to capital, increasing their distribution channels and providing more diversified revenue streams, including geographical diversification. Such competitive factors could result in increased pricing pressures on a number of the Friends Life group's products and services, particularly as competitors seek to win market share in the UK, and may harm the Friends Life group's ability to maintain or increase its market share or profitability.

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 products, which may pose additional challenges to the Friends Life group when introducing UK-style life assurance and pensions products.

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

The Friends Life group's strategy envisages the continuing and potentially increased use of outsourcing arrangements

A significant proportion of key customer service, administration, IT and back office functions is, and may increasingly be, provided by third party providers under formal outsourcing arrangements. The success of the strategy will depend on the ability of the Friends Life group to contract successfully and robustly with new outsourced service providers and on the continued performance and financial stability of these providers. Risks arising out of outsourcing include: (i) the risk of delay in bringing the client onto the provider's systems and any exposure for the Friends Life group arising out of such delay; (ii) service failures or defaults that could result in operational problems for the Friends Life group; and (iii) attempts by providers to renegotiate the terms of the arrangements, to the extent that they have leverage to do so (e.g. if any termination provision is activated for any reason). Any service failures or defaults by these providers could result in operational problems for 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 dependent on meeting a number of competitive challenges. In addition, in the UK the FSA is in the process of finalising its new rules regarding financial advisory practices in the retail distribution market. This will have a significant impact on the provision of advice within the retail distribution market and there are likely to be significant costs involved in implementing the new rules. These costs may relate both to any distributor firms or associated businesses owned or that may be acquired by the Friends Life group and also to insurance businesses within the Friends Life group directly by virtue of their

reliance upon distribution by third-party distributors, particularly during the course of the transitional period as the new rules come into effect and business models are changed and reviewed.

There is also a risk that the implementation of the FSA's new rules for retail advisory and distribution firms will lead to a decline in the number and/or size of retail distribution firms as financial advisors may decide to consolidate or to leave the sector as a response to the anticipated increase in costs of complying with the new practices and higher professional standards required by the FSA or any successor ''conduct of business'' regulatory authority. If a reduction in the capacity of the intermediary distribution sector does occur, this may in turn lead to a reduction in the opportunities for the Friends Life group's products to be distributed by retail and financial advisory firms.

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 values 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 may turn out to be incorrect or the value of claim costs may otherwise exceed that predicted in the Friends Life group's actuarial models and the business, results of operations and/or financial condition of the Friends Life group could be materially adversely affected.

In addition, it is necessary for the boards of directors of the relevant companies to make decisions, based on actuarial advice, which ensure an appropriate build-up of assets and liabilities relative to one another. These decisions include the allocation of investments among equity, fixed income, property, 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 argue that their interests have been adversely affected, or they have otherwise been treated unfairly, by such decisions. These arguments may give rise to regulatory 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 with-profits 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 from its operations and its Embedded Value depend, to a significant extent, on whether its actual experience is consistent with the assumptions and models used at the time policies are underwritten, when setting the prices for products and when establishing the provisions for future policy benefits and claims. These assumptions are estimates based on historical data and statistical projections of what the settlement and administration of its liabilities will be and are therefore applied to arrive at quantifications of some of the risk exposures of the Life and Pensions Businesses. The actual amounts payable by the Friends Life group to meet its liabilities may vary from the estimated amounts, particularly if the payments only occur well into the future.

Pricing of certain life products (such as pension contracts and immediate annuities) is based on assumptions on investment return, and if actual investment performance is worse 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 the frequency and/or size of claims being higher than anticipated), 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 lapses or withdrawal increases beyond expectations, is another important variable for the Life and Pensions Businesses as the Friends Life group is not always able to fully recover the up-front expenses incurred by it in selling a product and it may force the Friends Life group to sell assets at depressed prices and may lead to the loss of ongoing investment management charges.

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 Life and Pensions Businesses 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 Life and Pensions Businesses in an efficient manner may all be materially adversely affected. If the assumptions underlying the reserving basis are shown to be incorrect, this may have an adverse effect on the profitability of the Friends Life group.

Changes in mortality/longevity or morbidity rates may adversely affect the profitability of the Life and Pensions Businesses

The Life and Pensions Businesses have liabilities under 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. Annuities and other products are subject to mortality/longevity risk, such as the risk that annuitants live longer than was projected at the time their policies were issued with the result that the insurer must continue paying out to the annuitants for longer than anticipated (and therefore longer than was reflected in the price of the annuity). Conversely, increased mortality will increase death claims on life insurance products and decrease renewal rates. In calculating actuarial liabilities, certain assumptions are made for mortality/longevity and morbidity, but no assurance can be given that these assumptions will be correct or will give rise to adequate provisions within the Life and Pensions Businesses.

The performance of the Friends Life group's products will depend on the Friends Life group's ability to set accurate prices for the products it sells

The Friends Life group's business, results of operations and financial condition depends on its ability to underwrite and set rates and prices accurately for its targeted spectrum of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses and underwriting expenses and to earn profit on its own underwriting and its commission income (which is related to the amount and profitability of the pure protection business to be written by the Friends Life group). If the Friends Life group fails to assess accurately the risks that it assumes, it may fail to establish adequate premium rates, which could reduce those portions of the Friends Life group's revenues and have a material adverse effect on the Friends Life group's business, results of operations and/or financial condition. Similarly, if premium rates are set too high, the business may suffer a loss of revenue due to its products not being competitive.

On 1 March 2011 the European Court of Justice published a ruling (discussed in more detail in the section of this Prospectus entitled ''UK Insurance Regulation'') which made clear that gender related factors could not be used in determining premiums and benefits under insurance policies. However, the Court granted a transitional period of relief for implementation until 21 December 2012. The full effects of the ruling and how it will be transposed into law by the European member states is uncertain. In particular, it is currently unclear how insurance contracts entered into prior to the ruling, but which continue in force after 21 December 2012, will be treated. Due to the long term nature of life assurance and pension products, the majority of the Friends Life group's existing contracts will fall into this category. There is a risk that the profitability of the Friends Life group's business could be affected if the domestic implementing legislation provides that gender neutral pricing and benefits have to be provided retrospectively.

The Friends Life group may be exposed to risks which could lead to material losses or material increases in liabilities

The Friends Life group seeks to limit its exposure to insurance losses under its products through a number of loss limitation initiatives including internal risk management procedures, and through quota share reinsurance arrangements and outwards reinsurance protection. The failure of any of the loss limitation initiatives employed by the Friends Life group could have 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.

As seen 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 material losses in such businesses.

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 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.

Policyholder behaviour may not accord with expectations

The Friends Life group faces a risk of financial loss arising from experience of actual policyholder behaviour (for example in relation to lapses or option take-up) being different from expectations. Persistency experience varies over time as well as from one type of contract to another. Factors that cause lapse rates to vary over time include changes in investment performance of the assets underlying the contract where appropriate, regulatory 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).

Investment risk

Deposit institutions may default or adversely change their financial position

The Friends Life group faces the risk of financial loss arising from a deposit institution's default or the deterioration of the deposit institution's financial position. The Friends Life group is exposed to credit risk on balances deposited with banks in the form of cash, certificates of deposit and money market instruments (including traditional bank debt, bank subordinated debt and hybrid debt). The Friends Life group is also exposed to credit risk on balances deposited as money market instruments by parties other than banks (e.g. commercial paper). The default of or an adverse change in the financial position of a deposit institution could have a material adverse effect on the financial condition of the Friends Life group.

Debtors may be unable to repay their loan obligations owing to the Friends Life group or may adversely change their financial position

The Friends Life group has made loans to strategic partner distributors and advances commission on an indemnity basis to IFAs for the sale of some products of the Life and Pensions Businesses. The Friends Life group faces a risk of financial loss arising from a debtor's inability to repay all, or part, of its loan obligations to the Friends Life group or the deterioration of the debtor's financial position. The most material of such exposures are loans to IFAs as part of strategic investments, stock lending arrangements, other strategic loans, loans to former appointed representatives, agency debt (including debt arising as a result of clawback of unearned indemnity commission), policyholder debt, and rental income due. In general, these quantitative credit exposures are relatively low but they can bear relatively high likelihoods of default. Any such defaults could have a material impact on the Friends Life group's financial position.

The Friends Life group may be exposed to credit risk arising from transactions with sovereign agents

The Friends Life group faces a risk of financial loss arising from economic agents in a sovereign foreign country, including its government, being unable or unwilling to fulfil their international obligations due to a shortage of foreign exchange or other common reasons such as currency inconvertibility. The Friends Life group is exposed to country risk in a number of key areas, the most significant of which is bonds issued by foreign governments in non-domestic currency. Any defaults by these issuers could have a material impact on the Friends Life group's financial position.

Third parties may default or not deliver on their settlement obligations

The Friends Life group faces a risk of financial loss arising from the failure or substantial delay of an expected settlement in a transfer system to take place, due to the relevant third party defaulting or not delivering on its settlement obligations. The Friends Life group is exposed to settlement risk in the following key areas: 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. Any such failures or substantial delays could have a material adverse impact on the Friends Life group's financial position.

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 four key types of liquidity risk:

Funds managed for the benefit of shareholders may become illiquid

Funds managed for the benefit of shareholders, including shareholders' interests in long-term funds, may become illiquid. Recent challenging market conditions have led to certain assets becoming more illiquid. 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. The Friends Life group might experience difficulty in selling such assets in a timely manner and might therefore consider selling them (in the longer term) at values below those realisable in other circumstances.

Funds managed for the benefit of policyholders may become illiquid

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. The Friends Life group might experience difficulty in selling such assets in a timely manner and might therefore consider selling them (in the longer term) at values below those realisable in other circumstances.

Requirements to post collateral or make payments related to declines 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 Friends Life group may not be able to refinance its existing debt or raise further borrowings in the future

£500 million of commitments are currently available to the Issuer under a multicurrency revolving facilities agreement dated 24 June 2010 (the "**Revolving Credit Facility**"). The final maturity date of the Facility is 24 June 2013, however the Final Maturity Date may be extended pursuant to two extension options, for two further 12-month periods. The Friends Life group may (subject to FSA approval) seek to secure additional borrowings to finance future acquisitions and/or refinancing of acquired businesses (other than in relation to the AXA Acquisition). 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.

Reinsurance

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

The Friends Life group has a substantial exposure to reinsurers through reinsurance arrangements. Under these reinsurance arrangements, other insurers assume a portion of the costs, losses and expenses associated with policy claims and maturities and reported and unreported losses in exchange for a portion of policy premiums. As a result of such reinsurance contacts, the Friends Life group may be exposed to risk in three ways: (i) as a result of debts arising from claims made by Friends Life group companies but not yet paid by the reinsurer; (ii) from reinsurance premium payments made to the reinsurer in advance; and (iii) as a result of reserves held by the reinsurer which would have to be met by the Friends Life group in the event of default. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Any decrease in the amount of reinsurance cover purchased will increase the Friends Life group's risk of loss. When reinsurance is obtained, the Friends Life group is still liable for those transferred risks if the reinsurer does not meet its obligations. Therefore, the inability or failure of reinsurers to meet their financial obligations could materially adversely affect the Friends Life group's business, results of operations and/or financial condition.

In addition, as a proportion of insurance risk arising on new business is likely to be reassured, changes in reassurance rates available may impact upon the future profitability of any new business. 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

Adverse changes in one or more Friends Life group member's credit ratings or changes in credit ratings of any other Financial Services Businesses which the Issuer or the Guarantor may acquire may have adverse effects on the Friends Life group's business.

Ratings agencies may, at their discretion, change any of the ratings assigned to any member of the Friends Life group. A downgrade in the Friends Life group's financial strength ratings or a downgrade in its credit ratings, or the announced potential for a downgrade of any of these ratings, could have a material adverse effect on the Friends Life group's business, results of operations or financial condition in many ways, including: (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 its corporate partners and materially weakening its competitive position; (iii) reducing public confidence in the Friends Life group; (iv) increasing its costs of borrowing, including in debt capital markets transactions, or increasing collateral requirements under financial instruments; and (v) adversely affecting the Friends Life group's ability to obtain 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.

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 that may materially affect its results of operations andlor financial condition

In the Friends Life group's IFRS financial statements, financial assets are carried mainly at fair value. Fair values of financial instruments that are quoted in active markets are based on bid prices for the assets held. When independent prices are not available, fair values are determined by using comparisons with other similar financial instruments, or the use of valuation models. Corporate bond valuations are generally obtained from brokers and pricing services. Establishing valuations where there are no quoted bid prices or where, for example, transaction volumes fall significantly, inherently involves the use of judgement.

Methods considered when determining fair values of unlisted shares and other variable securities include discounted cash flow techniques and net asset valuations. The value of derivative financial instruments is estimated by applying valuation techniques, using pricing models or discounted cash flow methods. Where pricing models are used, inputs — including future dividends, swap rates and volatilities — based on market data at the balance sheet date are used to estimate derivative values. Where discounted cash flow techniques are used, estimated future cash flows and discount rates are based on current market swap rates. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid-values. Participation in investment pools mainly relates to property investments. Property is independently valued in accordance with the guidelines of the Royal Institute of Chartered Surveyors on the basis of open market values as at each year end.

During periods of market disruption, rapidly widening credit spreads or illiquidity, 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. Decreases in value may have a material adverse effect on its results of operations and/or financial condition.

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, net assets or MCEV

The Issuer and the Guarantor prepare their 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. Due to its relatively recent introduction, established practice on which to draw from in forming judgements regarding the interpretation and application of IFRS is still developing. Change in standards or the interpretation of IFRS could have a negative effect on the Friends Life group's financial results, distributable reserves or 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. The comment period for this exposure draft closed on 30 November 2010. This will lead to a new accounting standard, currently expected to be issued in 2011 but effective for financial years commencing several years later. The new standard could have an adverse effect on the financial results, distributable reserves or net assets of the Friends Life group.

In addition, in June 2008, in an effort to improve the consistency and transparency of embedded value reporting, the European Insurance CFO Forum published the MCEV Principles. Following a review of the impact of turbulent market conditions on the MCEV Principles, the CFO Forum announced in May 2009 the postponement of the mandatory reporting on MCEV basis until 2011 and subsequently, in October 2009, changed the principles to allow for the inclusion of a liquidity premium, which is the additional return investors require for investing in less liquid assets and is a key component in the calculation of the profitability of UK annuity business. It also announced that it was performing further work to develop more detailed application guidance to increase consistency going forward. When the work is completed, the Friends Life group will consider its approach to the new MCEV Principles. The adoption of the new MCEV Principles will give rise to different Embedded Value results from those prepared under the application of EEV Principles or current MCEV Principles.

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

In accordance with IFRS as adopted by the European Union, the Friends Life group's provisions are calculated by discounting future policy cash flows predominantly based on market interest rates at the date of valuation. The interest rate used for valuing the liabilities is based on the interest rate of assets whose characteristics the Friends Life group believes to resemble most closely the characteristics of the liabilities.

There is a risk that the valuation yield curve does not optimally reflect returns on assets with minimal credit risk. It could be that some of the bond yields constituting the curve are increased by factors such as limited trading volumes or credit risk. For example, there is a relatively shallow market for collateralised corporate bonds for long durations, which means that the long term yields may be pushed upwards because of the scarcity of assets. The yield curve could also be lowered as a result of credit ratings being downgraded. Just before the ratings downgrade, the yield of those bonds would likely be above the curve. Any lowering of the yield curve in the future could materially increase the Friends Life group's liabilities under IFRS and decrease the MCEV of the Life and Pensions Businesses, thus having a material adverse effect on the Friends Life group's MCEV, IFRS results and financial conditions.

Legal and regulatory risks

The Friends Life group is subject to extensive regulation and must comply with minimum capital requirements

All UK and overseas regulated insurance companies face the risk that the FSA or an overseas regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required, and an inability to meet regulatory capital requirements in the future could lead to intervention by the FSA or an overseas regulator which could be expected to require the Friends Life group or individual entities within the Friends Life group to take steps for the security of policyholders with a view to restoring regulatory capital to acceptable levels. 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.

In the UK, the FSA currently has broad powers under FSMA, 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. The UK regulatory regime, including the FSA's powers and responsibilities and the UK government's recent announcements about future reform of the UK framework for financial regulation, is discussed in more detail in the section of this Prospectus entitled ''UK Insurance Regulation''.

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 FSA may from time to time change the level of regulatory capital required to be held by the Friends Life group, which could result in the Friends Life group being required to maintain a significantly higher level of regulatory capital. Fluctuations in investment markets and volatility in interest rates would, directly or indirectly, affect the value of technical provisions and the levels of regulatory capital required to be held by regulated entities within the Friends Life group. Any failure to meet supervisory requirements in the future could lead to intervention by supervisors. The nature of the intervention in such circumstances is likely to vary depending on the severity of the failure, but such intervention could include (among other things) requiring the relevant regulated entity to produce a plan for addressing the regulator's concerns and in more serious cases could involve a requirement that the regulated entity ceases to write new business. Similar requirements as to levels of regulatory capital will apply in the context of Financial Services Businesses in other areas.

Various jurisdictions have created consumer compensation schemes that require mandatory contributions from participants in the financial services sector. In the United Kingdom such a compensation scheme is administered through the FSCS. An annual contribution by each market

participant 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 Financial Services Businesses acquired by the Issuer or the Guarantor.

Current EU directives, including the Insurance Groups Directive, require European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the EEA group level in respect of shareholder-owned entities. The test is a continuous requirement, so that the Friends Life group needs to maintain regulatory capital at the EEA 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.

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. Changes in governmental policy, such as in relation to government pension arrangements and policies, and/or changes in legal or regulatory policies or requirements, such as gender neutral pricing, could also have an adverse impact on the business, results of operations and/or financial condition of the Friends Life group.

On 16 and 17 June 2010 the UK government announced plans to reform the institutional framework for financial regulation in the UK. In particular, the UK government intends to break up the FSA and to reallocate its current responsibilities between three new regulatory authorities (this development is discussed in more detail in the section of this Prospectus entitled ''UK Insurance Regulation'').

Any substantial reorganisation of the regulatory system such as this 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.

While it is not presently anticipated that the structural reorganisation of the regulatory authorities concerned will itself lead to 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 future changes in the nature of, or policies for, prudential and conduct of business supervision as performed by any successor authority to the FSA will differ from the current approach taken by the FSA and that this could lead to a period of some uncertainty for Financial Services Businesses. Any or all of these factors could have an adverse impact on the conduct of the business of the Friends Life group and therefore also on the strategy and profitability of the Friends Life group, for example by requiring members of the Friends Life group to maintain additional capital, and on its ability to respond to, and satisfy the supervisory requirements of, the relevant UK regulatory authorities.

There have been significant changes in relevant legislation and regulation, in particular since 2005, 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, including the implementation of the Insurance Mediation Directive, simplification of the pensions regime which was implemented on 6 April 2006 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.

Regulatory changes that will arise following implementation of the FSA's Retail Distribution Review (discussed in more detail in the section of this Prospectus entitled "UK Insurance Regulation") are also likely to carry significant implementation costs for the Friends Life group, both in respect of product provider and distributor firms in those businesses. Charging models at the distributor firms may be particularly affected and there is uncertainty, at least until any new rules and guidance are implemented by the FSA or any successor regulatory authority and reflected in the operations of affected businesses, about the effect of any changes to retail distribution models on the Friends Life group.

Following the onset of the recent financial crisis, the FSA has adopted a more intrusive and direct style of regulation which it has termed "intensive supervision". This strategy, combined with the FSA's outcomes-focused regulatory approach, more proactive approach to 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 a breach of their regulatory obligations are likely to face harsher penalties. It is anticipated that this intensive approach to supervision will be continued by the FSA's successor regulatory authorities.

Neither the Issuer nor the Guarantor will 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 and such changes could, among other things, result in the members of the Friends Life group being required to reserve additional capital.

The European Commission has begun a review of the Insurance Mediation Directive which established an EU-wide supervisory regime for intermediaries involved in the promotion, sale and administration of certain insurance products. This review is at an early stage and consequently it is impossible to predict the extent and nature of any changes which may be made to the existing regime, but it is possible that such changes may have an operational, cost or other negative impact on the Friends Life group and their distribution arrangements in particular.

The European Commission is also currently working on preparing a legislative proposal around packaged retail investment products with the aim of harmonising pre-contractual disclosures and selling practices. The Commission has consulted on the legislative steps necessary for the implementation of these proposals. The precise nature of the proposals is currently unclear, but such proposals may have an impact on how packaged retail investment products are manufactured and sold.

The European Commission is currently in the process of introducing a new regime governing solvency margins, own funds and reserves, the effect of which is uncertain

The European Commission is 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 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 a pre-application procedure for internal models to enable those firms who wish to use them to submit applications for approval at an appropriate stage (the FSA is expecting to receive internal model applications from early 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.

The Solvency II Directive was formally adopted by the European Council on 10 November 2009 and is now proposed by the European Commission to enter into force on 1 January 2013. The European Commission has initiated the process of developing detailed rules that will complement the high-level

principles of the Solvency II Directive, referred to as ''implementing measures'', which are subject to a consultation process and are not expected to be finalised by the European Commission until late 2011. There is significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could have a material adverse effect on the Friends Life group, including their business and financial condition.

There is a risk that under the Solvency II implementing measures the existing debt instruments issued by the Friends Life group cease to be capable of counting as cover for capital requirements or be treated as own funds. In these circumstances the Friends Life group would need to explore options for replacing its existing debt instruments and there is a risk that refinancing the existing debt could prove expensive, difficult or impossible on comparable terms, which could have a material adverse effect on the Friends Life group, including its business and financial condition.

A failure by the Friends Life group to implement the measures required by the Solvency II Directive in a timely manner could 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.

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 of changes announced in the future to UK and overseas tax legislation on its business. From time to time changes in the interpretation of existing UK and overseas tax laws, amendments to existing tax rates, 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 introduction of Solvency II with effect from 1 January 2013 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, to be followed by a period of consultation.

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.

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) extant 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 Businesses 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 the reasonable expectations. Given the inherent unpredictability of litigation and evolution of judgments by the FOS, it is possible that an adverse outcome in some matters could have a material adverse effect on the business, results of operations and/or financial condition of the Friends Life group arising from the penalties imposed or compensation awarded, together with the costs of defending any action.

There may be changes to the current VAT rules which result in VAT being chargeable on certain outsourcing agreements of the Friends Life group and such VAT suffered not being recoverable from HMRC as deductible VAT input tax

The companies that form 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 European Court of Justice 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 the Friends Life group would be.

Potential FSA (or overseas regulator) intervention may occur on industry wide issues

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 an insurance policy or otherwise treated policyholders, either individually or collectively. These issues and disputes may typically, for individual policyholders, be resolved by 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, the sale of mortgage-related endowments and investments in split capital investment trusts.

The Financial Services Act 2010 provided a new power for the FSA to require authorised firms to establish a consumer redress scheme if it considers that consumers have suffered loss or damage as a consequence of a widespread or regular regulatory failure (such as mis-selling). The new power was brought into force on 12 October 2010, but the FSA has yet to propose any rules setting out when or how the power would be exercised.

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 are regulated in overseas jurisdictions, this may result in potential policyholder claims and regulatory intervention in those jurisdictions on a similar basis. Policyholder claims and regulatory interventions could damage the reputation of the Friends Life group and/or have a materially adverse effect on its results of operations.

The FOS exists to resolve disputes involving individual or small business policyholder disputes. Decisions are not made public 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.

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

F&C is the investment manager of the assets underlying many of the contracts sold by the Life and Pensions Businesses. AXA Investment Managers UK Limited and various of its affiliates are the investment managers of the assets underlying many of the contracts sold by the AXA UK Life Business. 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 F&C or AXA Investment Managers UK Limited consistently underperform relative to other fund managers 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 include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, misconduct of employees or other events such as fraud. These events can potentially 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 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).

It is anticipated that the Friends Life group maintains policies and procedures to ensure that operational risks are appropriately controlled, including compliance with applicable laws, regulations and regulatory policies. However, although the Friends Life group believes that its current policies and procedures are adequate and effective, they 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.

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's success depends upon its ability to 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 its 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 Friends Life group's business, results of operations and/or financial condition. In particular, reputational damage to the Friends Life group could adversely affect new business sales and margins via the distribution network. Negative publicity in respect of the Friends Life group could potentially result in regulators subjecting the Friends Life group's business to closer scrutiny than would otherwise be the case.

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

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

A deficit will arise in relation to an ongoing 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. 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 Friends Life group'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.

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.

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

The Subordinated Notes may not be a suitable investment for all investors

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.

The Subordinated Notes are complex financial instruments

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.

Risks Related to the Structure of the Subordinated Notes

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

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

In particular, it should be noted that, 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 is intended to introduce more sophisticated and risk sensitive standards to capital requirements for insurers in order to, among other things, improve policyholder protection against adverse events, market risk, credit risk and operational risk. Solvency II 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 may be different and/or more onerous than those currently applicable to insurance companies in the UK. The European Commission has not yet set out the details of the features which any capital (including subordinated notes) must have to fall within the different tiers of capital. These details are not expected to be known until, at the earliest, when the implementation measures (Level 2) relating to Solvency II are presented to the European Parliament and the Council in June 2011 and there can be no assurance that, following the initial publication of such details, the implementation measures will not be amended. Although, prior to the publication of the proposed Level 2 implementation measures expected at the earliest in June 2011, the Committee of European Insurance and Occupational Pensions Supervisors have given indications as to what the features of regulatory capital might be, for example those set out in the QIS5 Technical Specifications (the "**Indicative Features**"), the Indicative Features are preliminary and lacking in detail and there can be no assurance that the Level 2 implementation measures and any rules and regulations to be adopted pursuant to such implementation measures will not require features which are wholly or substantially different from the Indicative Features. In addition, even though the Issuer has given consideration to the Indicative Features in the Terms and Conditions of the Subordinated Notes, there is considerable uncertainty as to their precise requirements. Moreover, there is considerable uncertainty as to how relevant regulators, including the FSA, will interpret the Indicative Features and the Level 2 implementation measures. Accordingly, there is a significant 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.

Solvency Condition, Mandatory 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.

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.

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) the next Interest Payment Date which is not a Mandatory Deferral Interest Payment Date or, in respect of the Guarantor, on which no Guarantor Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made; (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 (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 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; or (iii) the date fixed for any redemption or purchase of the Subordinated Notes.

Deferral of Redemption: If redemption of the Subordinated Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c)(ii)(A) or Condition 6(d)(ii) as a result of Condition 6(a)(ii), 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.

If Condition 6(a)(ii) does not apply, but redemption of the Subordinated Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c)(ii)(A) or Condition 6(d)(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.

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: The Trust Deed constituting the Subordinated Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed 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.

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. 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 is a holding company

The Issuer is the parent company of the Group with the operations of the Group being conducted by operating subsidiaries. Accordingly, and notwithstanding any payments due by the Guarantor pursuant to the Guarantee, 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.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Subordinated Notes, there is no assurance that this would not adversely affect investors in the Subordinated Notes. It is possible that prior to the maturity 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.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, 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 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) 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).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may 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, neither the Issuer, the Guarantor nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any New 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.

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.

Integral multiples of £100,000

The Subordinated Notes are issued in the denomination of £100,000 and higher integral multiples of £1,000 thereafter and so it is possible that the Subordinated Notes may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than £100,000 will not receive a definitive New Subordinated Note in respect of such holding (should definitive Subordinated Notes be printed) and would need to purchase a principal amount of Subordinated Notes such that it holds an amount equal to or greater than £100,000.

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 sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to sterling would decrease (1) the Investor's Currency-equivalent yield on the 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.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (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.

TERMS AND CONDITIONS OF THE SUBORDINATED NOTES

The issue of the £500,000,000 8.25 per cent. Fixed Rate Subordinated Notes due 2022 (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 Provident Holdings (UK) plc (the "**Issuer**") was authorised by resolutions of the board of Directors passed on 25 October 2010 and a resolution of a duly authorised committee of the board of Directors passed on 15 April 2011 and the giving of the Guarantee was authorised by a resolution of the board of Directors of Friends Provident Life and Pensions Limited (the "**Guarantor**") passed on 15 April 2011. The Subordinated Notes are constituted by a trust deed (the "**Trust Deed**") dated on or about 21 April 2011 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**"). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Subordinated Notes and of the interest coupons (the "**Coupons**") appertaining to Subordinated Notes in definitive form. Copies of (i) the Trust Deed; and (ii) the paying agency agreement (the "**Paying Agency Agreement**") dated on or about 21 April 2011 relating to the Subordinated Notes 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 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 £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000 each with Coupons attached on issue. No definitive Subordinated Notes will be issued with a denomination below £100,000 or above £199,000.

(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 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 (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 if, following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend, the payment obligations of the Issuer under or arising from the Subordinated Notes and the Coupons relating to them and the Trust Deed, including any Arrears of Interest, shall be subordinated to the claims of all Senior Creditors 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 Lower Tier 2 Capital (issued prior to Solvency II Implementation) or

Tier 2 Capital (issued on or after Solvency II Implementation) ("**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, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital including, without limitation, by virtue of the operation of any grandfathering provisions by the FSA and all claims of holders of all classes of share capital of the Issuer (together, the "**Junior Securities**").

(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 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(b) 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) which applies to the Issuer or Condition 3(d) or Condition 5(c)(i) which applies 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(b).

(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(d), 5(c)(i) and 6(i)) 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), 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, 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) and (f) 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 will be mandatorily deferred in accordance with Condition 5(c)(i) and shall only become payable by the

Guarantor in accordance with Condition 5(c)(vi). 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(i) and shall only become payable by the Guarantor in accordance with Condition 6(i)(v).

(c) Guarantor Subordination

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Guarantor (except, in any such case, a solvent winding-up, solely for the purpose of a reconstruction or amalgamation of the Guarantor, the terms of which reconstruction or amalgamation (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 if, following the appointment of an administrator of the Guarantor, the administrator gives notice that it intends to declare and distribute a dividend, the payment obligations of the Guarantor under or arising from the Guarantee shall be subordinated to the claims of all Guarantor Senior Creditors but shall rank at least *pari passu* with all 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 Pari Passu Securities and all claims relating to a guarantee or other like or similar undertaking or arrangement given by the Guarantor in respect of any obligations of any other 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 other like or similar undertaking or arrangement given by the Guarantor in respect of any obligations of any other person which constitute, or would but for any applicable limitation on the amount of such capital constitute, Guarantor Junior Securities.

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.

(d) 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(d), 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 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(d) at the time referred to in Condition 5(c)(vi).

4. Interest

(a) Interest Rate and Interest Payment Dates

Subject to Condition 2(b) and Condition 5, the Subordinated Notes bear interest from and including the Issue Date at the rate of 8.25 per cent. per annum, payable annually in arrear on 21 April 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 21 April 2012, and thereafter for each successive period, from and including an Interest Payment Date to but excluding the next Interest Payment 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 Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

5. Deferral of payment of interest

(a) Issuer 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 (a "**Mandatory Deferral 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) or this Condition 5(a) 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.

(b) 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 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) declare or pay a dividend or other distribution in respect of any class of its share capital, save where the Issuer is not able to defer, pass or eliminate a dividend or other distributions;

(ii) make any other payment on, and will procure that no distribution or other payment is made on, any Junior 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;

(iii) repurchase, redeem or otherwise acquire shares of any class of the Issuer for cash (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 payment or any other obligation in respect of such repurchase, redemption or other acquisition); or

(iv) redeem, purchase, cancel, reduce or otherwise acquire any Junior Securities save where the Issuer is not able to defer, pass or eliminate a dividend or other distributions or other payment or any other obligation in respect of such redemption, purchase, cancellation, reduction or other acquisition in accordance with the terms of the Junior Securities.

Any Arrears of Interest, payment of which is deferred in accordance with Condition 5(a) 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 which is not a Mandatory Deferral Interest Payment Date (taking into account for this purpose the payment of Arrears of Interest on such Interest Payment Date);

(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.

(c) Guarantor Deferral of Interest

(i) 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.

(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 payments of Guaranteed Amounts 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.

(iii) 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.

(iv) 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(d) or this Condition 5(c) 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 payments of Guaranteed Amounts in respect of interest on the Subordinated Notes shall not have been paid as a result of Condition 5(c)(i) or as a result of a breach of the Guarantor Solvency Condition in Condition 3(d), then, in the case of Condition 5(c)(i), from the date on which a Guarantor Regulatory Deficiency Interest Deferral Event has occurred and, in the case of Condition 3(d), 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:

(A) declare or pay a dividend or other distribution in respect of any class of its share capital, save where the Guarantor is not able to defer, pass or eliminate a dividend or other distributions;

(B) make any other payment on, and will procure that no distribution or other payment is made on, any Guarantor Junior 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;

(C) repurchase, redeem or otherwise acquire shares of any class of the Guarantor for cash (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 payment or any other obligation in respect of such repurchase, redemption or other acquisition); or

(D) redeem, purchase, cancel, reduce or otherwise acquire any Guarantor Junior Securities save where the Guarantor is not able to defer, pass or eliminate a dividend or other distributions or other payment or any other obligation in respect of such redemption, purchase, cancellation, reduction or other acquisition in accordance with the terms of the Guarantor Junior Securities.

(vi) Any Arrears of Interest, payment of which under the Guarantee is deferred in accordance with Condition 5(c)(i) or as a result of a breach of the Guarantor Solvency Condition in Condition 3(d), unless such Arrears of Interest have subsequently been paid by the Issuer, may (subject to Condition 3(d) 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(d) 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);

(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) 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, unless previously redeemed or purchased and cancelled as provided below, each Subordinated Note shall be redeemed at its principal amount together with accrued interest and any Arrears of Interest on the Maturity Date.

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

(iii) If redemption of the Subordinated Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c)(ii)(A) or Condition 6(d)(ii) 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 Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c)(ii)(A) or Condition 6(d)(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

Prior to any notice of redemption before the Maturity Date 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 FSA and be in continued compliance with Regulatory Capital Requirements applicable to it. 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.

(c) Redemption, Substitution or Variation 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 Lower 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 of the Subordinated Notes (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 Lower 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 Lower Tier 2 Securities and the opinion of an independent investment bank of international standing referred to in the definition of Qualifying Lower 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 Lower 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(c) 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(c) 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.

(d) 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 Lower 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 Lower Tier 2 Securities and the opinion of an independent investment bank of international standing referred to in the definition of Qualifying Lower 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 Lower 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(d) 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.

(e) Compliance with Stock Exchange Rules

In connection with any substitution or variation in accordance with Condition 6(c) or Condition 6(d), 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.

(f) 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.

(g) 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.

(h) Trustee Not Obliged to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Noteholders for any loss arising from any failure by 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.

(i) 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(d) or this Condition 6(i) 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(i)(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(d) (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 Interest 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

Without prejudice to the terms of Condition 9, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. 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 pounds sterling account, in London). 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) 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(d), 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(c) 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(i) applies.

If default is made by the Guarantor for a period of 7 days or more in respect of any payment due under the Guarantee, 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 Issuer Relevant 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 immediate 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 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 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 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 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 or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder 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 or within 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 Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Subordinated Notes or Coupon; 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.

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) 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(c) 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.

(c) 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;

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

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

"**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 Provident Limited) and Friends Provident Group plc (now renamed Friends Provident Group 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 Provident Limited) and Friends Provident Group plc (now re-named Friends Provident Group 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;

"**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, junior to the claims of the Noteholders including holders of Guarantor Junior Securities;

"**Guarantor Junior Securities**" means Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital including, without limitation, by virtue of the operation of any grandfathering provisions by the FSA and all claims of holders of all classes of share capital of the Guarantor but excluding any Internal Subordinated Funding, including the exclusion of, 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, *pari passu* with the claims of the Noteholders including holders of Guarantor Pari Passu Securities;

"**Guarantor Pari Passu Securities**" means Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) but excluding any Internal Subordinated Funding, including the exclusion of, 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;

"**Guarantor Regulatory Deficiency Interest Deferral Event**" means:

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

(b) 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 (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

(c) 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;

"**Guarantor Regulatory Deficiency Redemption Deferral Event**" means

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

(b) 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 (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 or suspend repayment or redemption of the Subordinated Notes; or

(c) 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, Upper Tier 2 Capital (issued prior to Solvency II Implementation), Lower Tier 2 Capital (issued prior to Solvency II Implementation), or Tier 2 Capital (issued on or after Solvency II Implementation) or 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(d);

"**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 Payment Date**" means 21 April in each year, from (and including) 21 April 2012;

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

"**Internal Subordinated Funding**" means any subordinated funding provided at any time to the Guarantor by any Group issuer 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) of the Guarantor directly funded by the proceeds of an issue of any obligation 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;

"**Issue Date**" means 21 April 2011, 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**" has the meaning given to it in Condition 2(a);

"**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;

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

"**Maturity Date**" means 21 April 2022;

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

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

"**Qualifying Lower 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 (4) 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 Lower Tier 2 Capital; (2) they shall include terms which provide for the same Interest Rate applying to the Subordinated Notes; (3) they shall rank senior to, or *pari passu* with, the Subordinated Notes; and (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; 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 requirement (including 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;

"**Regulatory Deficiency Interest Deferral Event**" means

(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 (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

(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;

"**Regulatory Deficiency Redemption Deferral Event**"

(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 (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 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 either (i) the Subordinated Notes outstanding at such time or (ii) any indebtedness outstanding at such time classified in the same category as the Subordinated Notes by the Supplementary Supervisor or the Group Supervisor, as appropriate, for the purposes of any transitional or grandfathering provisions under the Insurance Groups Directive, Solvency II or the Relevant Rules, as appropriate, are capable of counting,

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

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

except where in either case of (A) or (B) above 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;

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

"**Solvency II**" means the Solvency II Directive and any 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 by the FSA of Solvency II or any other change in law or any Relevant Rules only if such implementation or other changes result in Upper Tier 2 Capital and Lower Tier 2 Capital ceasing to be recognised tiers of capital;

"**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;

"**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(c);

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

"**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; and

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

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 21 April 2011. 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 31 May 2011 (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.

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 a holding company in the Friends Life group, which operates UK life and pensions business.

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 +44(0) 870 608 3678.

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.

Organisation structure

The following chart shows, in simplified form, the organisational structure of the RSL Group, of which the Friends Life group forms part, as at the date of this Prospectus:

Resolution Limited

The Issuer is a subsidiary undertaking of Resolution Limited. Resolution Limited's share capital consists of a single class of ordinary shares that were originally admitted to Standard Listing on the Official List in accordance with Chapter 14 of the Listing Rules and to trading on the London Stock Exchange's main market for listed securities. Resolution Limited transferred to a Premium Listing on completion of the acquisition of Friends Provident, and is subject to those provisions of the Listing Rules that apply to overseas companies with a Premium Listing.

In 2009, Resolution Limited launched a restructuring project in the UK life and asset management sectors (the "**UK Life Project**"). The Issuer was incorporated as a subsidiary undertaking of Resolution Limited to be the holding company of the RSL Group's principal operating companies which form part of the UK Life Project.

Resolution Limited holds the Issuer through Resolution Holdco No 1 LP, a limited partnership which was set up on flotation of Resolution Limited in 2008 and is, through Resolution Holdings (Guernsey) Limited, the 100 per cent. owner of the Issuer, as set out in the simplified organisation chart above.

The objective of the UK Life Project is to make a small number of acquisitions in order to build a sustainable life assurance group capable of generating, in aggregate over the UK Life Project, returns consistent with a mid-teens gross internal rate of return. On 23 February 2011, Resolution Limited stated that it is confident that it will achieve its targeted returns on the UK Life Project without further acquisitions and, furthermore, that it will not contemplate acquisitions that would dilute the returns likely to emerge from the acquisitions already made (described below).

Resolution Limited does not expect to be the long-term owner of the UK life assurance group it creates. It has stated that it generally expects a restructuring project to last between two to four years (although holding periods could be longer or shorter). Given the considerable change that is likely in the financial services landscape in the coming years, Resolution Limited has stated that it will keep under review its options regarding the form of its exit from the UK Life Project, aiming for options, or a combination of options, that will deliver the best overall returns on the project. These could include a cash sale, together or in parts, of the Friends Life group; a direct listing of the Issuer as a standalone entity; a separation of the UK open business from the UK back book leading to a separate sale or listings; or a merger of the Issuer with another life company.

The Issuer and the Friends Life group

Acquisitions

The Issuer acquired Friends Provident Group Limited on 4 November 2009.

On 15 September 2010, the Issuer completed the acquisition of the majority of the AXA UK Life Business when it purchased the entire issued share capital of Friends ASLH Limited. The Friends Life group and the AXA Group are currently implementing an agreed corporate separation and integration plan, designed to re-allocate certain portfolios of insurance business between them. Further details of the corporate separation and integration, which is anticipated to be completed in full later this year, are set out in the section entitled "*Friends Life group / AXA Group corporate separation and integration*".

The business and shares of Bupa Health Assurance Limited ("**BHA**") were acquired by the Guarantor on 31 January 2011.

Operational structure

The Friends Life group is managed and reported on in three distinct segments. These are:

- the UK segment, comprising the UK life and pensions operations of Friends Provident, the AXA UK Life Business, BHA, and the UK distribution business Sesame Bankhall;
- the International segment, comprising Friends Provident International Limited ("**FPIL**"), the overseas branch of Friends Provident Life Assurance Limited ("**FPLAL**"), Financial Partners Business AG ("**fpb**"), and Friends Provident's share of AmLife; and
- the Lombard segment, comprising Luxembourg-based Lombard International Assurance SA, and related companies.

The life and pensions operations of the UK segment will be carried out under the new brand "Friends Life" which was launched in March 2011.

UK

Friends Provident has its origins in a business founded by Quakers in 1832, and offers a range of protection, pensions and savings and investments products in the UK life and pensions markets.

The AXA UK Life Business comprises 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. The business has major life insurance operations in the UK including a

significant presence in the protection, corporate pensions and traditional life and pensions markets in the UK.

BHA is a well-established provider of protection insurance in the UK, competing in both the Individual Protection and Group Risk markets. BHA was a wholly owned subsidiary of British United Provident Association Limited ("**BUPA**") set up in 1994 to offer individual and group protection insurance to complement BUPA's core private medical insurance offering in the UK.

Sesame Bankhall is Friends Life group's UK distribution business. Sesame Bankhall has an active relationship with over 12,000 financial advisers across the UK, providing services including regulatory compliance advice, training, research and technology. Sesame Bankhall provides financial advice and distributes a wide range of investment, protection, mortgage and general insurance products.

Current UK new life and pensions business activity is centred on three key business lines: Individual Protection, Corporate Pensions and Risk, and Annuities. In addition, the UK businesses write new business in individual pensions, savings and investments and manage books of existing policies.

Individual Protection

A range of protection policies (including term assurance, critical illness and income protection) are offered to individuals. Protection products are distributed through IFAs, banks, building societies, estate agencies and other strategic partnerships. Protection products are offered by each of Friends Provident, the AXA UK Life Business, and BHA.

Corporate Pensions and Risk

The main pension product is corporate pensions, which offers employers a complete defined contribution pension solution, including administration and investment management. Products are distributed through IFAs and EBCs. Each of Friends Provident and the AXA UK Life Business provide corporate pensions administration, with investment management outsourced to third party asset managers.

Corporate Risk business offers protection policies to groups of employees, distributed through IFAs and employee benefit consultants. This business is written by Friends Provident and BHA.

Annuities

Annuities are offered to customers who have vesting pension policies by Friends Provident and the AXA UK Life Business. The business does not actively compete in the open market for individual or bulk annuities.

Other activity

Friends Provident and the AXA UK Life Business manage significant books of business related to business lines that are either closed or no longer actively marketed, including With Profits products. The policies were sold over many years under a number of different brands including Friends Provident, UK Provident, National Mutual, London & Manchester, Sun Life, AXA Equity & Law, AXA Sun Life, Winterthur Life, PPP Lifetime Care and Provident Life.

Other new business lines offered by Friends Provident and the AXA UK Life Business but not actively marketed include individual pensions, and savings and investments products such as investment bonds. These products typically offer a range of third-party managed funds. Products are distributed through IFAs, banks and building societies.

International

The major component of International is the Isle of Man-based entity FPIL, manufacturing unit-linked regular contribution savings, single premium bond and protection products targeted at high net worth individuals via its distribution hubs in Hong Kong, Singapore and Dubai.

Overseas Life Assurance Business is written as overseas branch business in the UK operating companies, most notably FPLAL, which provides pension products in to the German market.

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 branch of the UK operating companies.

In December 2008, Friends Provident acquired a 30 per cent. stake in AmLife, a Malaysian Life Insurance company, majority owned by AmBank, Berhad, a major Malaysian banking group.

Lombard

Lombard is a leading pan-European life assurance business specialising in tax and estate planning solutions for high and ultra high net worth individuals, acquired by Friends Provident in 2005. The business, based in Luxembourg, offers innovative solutions, backed up by superior service, through private banks and high-end IFAs across Europe. The products offered are single premium, whole of life, unit-linked life assurance with the majority of the life exposure reinsured.

Recent developments

Senior management changes

On 25 January 2011 Resolution Limited announced that Andy Briggs will become CEO of the Issuer and that Trevor Matthews will assume a new role of Vice-Chairman of the Issuer. Andy Briggs is expected to join the Issuer by July 2011 from Lloyds Banking Group where he is currently CEO of General Insurance.

Company reorganisation and name changes

In March 2011 the Friends Life group rebranded the companies comprising the AXA UK Life Business under the new group brand "Friends Life", and also completed an internal reorganisation pursuant to which Friends Life Assurance Society Limited and Friends Life Company Limited were transferred from Friends ASLH Limited to become subsidiaries of Friends Life and Pensions Limited, and Friends Life Services Limited transferred from Friends ASLH Limited to become a subsidiary of Friends Provident Limited.

Friends Life group / AXA Group corporate separation and integration

As set out in the section entitled "*The Issuer and the Friends Life group*", the Friends Life group and the AXA Group are currently implementing an agreed corporate separation and integration plan, designed to re-allocate certain portfolios of insurance business between them. The corporate separation and integration process is anticipated to be completed in full later this year and is governed principally by the Framework Agreement. It is expected to involve:

(a) Part VII Transfers of:

  (i) the GOF Portfolio and the TIP Wealth Portfolio from Friends Life Company Limited to AXA Wealth Limited (a subsidiary of AXA). The amount payable by AXA Wealth Limited to Friends Life Company Limited in respect of the GOF Portfolio and the TIP Wealth Portfolio is approximately £281,000,000, subject to adjustments as set out in the Framework Agreement;

  (ii) the Wealth Portfolio from Winterthur Life UK Limited (a subsidiary of AXA UK plc until the exercise of the put or call option granted under the Option Agreement) to AXA Wealth Limited. The consideration for this Part VII Transfer will be the Part VII Transfer of the WLUK Portfolio; and

  (iii) the WLUK Portfolio by AXA Wealth Limited to Winterthur Life UK Limited. The consideration for this Part VII Transfer will be the Part VII Transfer of the Wealth Portfolio, and

(b) the exercise of the put or call option granted under the Option Agreement, whereby all of the issued shares in Winterthur Life UK Limited will be transferred to the Issuer. This step will mark the completion of the separation and integration.

Directors of the Issuer

The Issuer's directors, a majority of whom are non-executive, are listed below.

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.

Sir Malcolm Williamson, Chairman, non-executive director, aged 72

Sir Malcolm Williamson was appointed as an independent director of the Issuer on 5 November 2009 and Chairman on 9 February 2010. He is the Chairman of the Remuneration Advisory Group of the Issuer and also Chairman of Signet Jewelers Limited, Clydesdale Bank PLC, National Australia Group Europe Limited, SAV Credit Limited, Cass Business School's Strategy & Development Board, The Prince's Youth Business International and Youth Business America. Sir Malcolm is a non-

executive director of National Australia Bank Limited and was previously Chairman of CDC Group plc, Deputy Chairman of Resolution plc and a non-executive director of G4S plc, JPMorgan Cazenove Holdings and the International Business Leaders Forum. He was formerly the President and Chief Executive Officer of Visa International between 1998 and 2004 and Group Chief Executive of Standard Chartered PLC from 1993 to 1998.

David Allvey, senior independent director, aged 66

David Allvey was appointed as an independent director of the Issuer on 5 November 2009 and Senior Independent Director in November 2010. He is Chairman of the Audit Committee, a member of the Board Risk and Compliance Committee and a member of the Remuneration Advisory Group of the Issuer. Currently Chairman of Costain Group plc and Arena Coventry Limited, the Senior Independent Director of Intertek Group plc and William Hill plc and a Non-Executive Director of Thomas Cook plc. A Chartered Accountant, he has held positions in major international businesses including Group Finance Director for both BAT Industries and Barclays PLC, and Chief Operating Officer for Zurich Financial Services. He is a former board member of the UK Accounting Standards Board.

Evelyn Bourke, executive director, aged 46

Evelyn Bourke was appointed as an executive director of the Issuer on 5 November 2009 and as a director of the Guarantor on 1 November 2009, having joined Friends Provident Limited as Chief Finance Officer in May 2009. Evelyn is also a director of Friends Provident Group Limited. Evelyn is responsible for strategy, capital and risk and is a member of the Investment Oversight Committee of the Issuer. Previously she was Chief Financial Officer of Standard Life UK Financial Services and has nearly 30 years of experience in Life Assurance, including 10 years in consulting with Tillinghast-Towers Perrin, focused on strategy, business performance improvement and leading businesses through major change. Evelyn is an actuary and has an MBA from London Business School. She is also a non executive director of The Children's Mutual.

Clive Cowdery, non-executive director, aged 47

Clive Cowdery was appointed as a non-executive director of the Issuer on 26 August 2009. Clive was also appointed Chairman of Resolution plc from September 2005 following the merger of Britannic Group plc and Resolution Life Group Limited and held that role until the completion of the sale of Resolution plc to Pearl Group Limited in May 2008. He was previously Chief Executive of Resolution Life Group Limited, a company he founded in 2003. Prior to that, in 1998, Clive was appointed 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 led while with GE included life and pensions companies in the UK and France and Europe's largest credit insurer with operations in 12 countries. Before joining GE, in 1992, he co-founded Scottish Amicable International/Rothschild International, a European cross-border insurance business based in Dublin. He started his career in insurance advising clients as a broker. Clive is Chairman of the charity he founded, the Resolution Foundation, and a non-executive director of the British Land Public Limited Company and Prospect Publishing Limited.

David Hynam, executive director, aged 39

David Hynam was appointed as an executive director of the Issuer and the Guarantor on 15 September 2010. David was appointed as a director of Friends Provident Group Limited on 11 April 2011. David was Group Chief Operating Officer of AXA UK since 2008, having previously been Chief Operating Officer of AXA Life. As part of his previous role in AXA 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.

Nicholas Lyons, non-executive director, aged 52

Nicholas Lyons was appointed as an independent 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 of the Issuer. Nicholas is also non-executive director of Catlin Group Limited, non-executive director of Quayle Munro Limited and Chairman of Miller Insurance Investments Limited. He 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.

Trevor Matthews, executive director, aged 59

Trevor Matthews was appointed as an executive director and Chief Executive Officer of the Issuer on 5 November 2009 and as a director of the Guarantor on 30 July 2008. He is also a director of Friends Provident Group Limited, having been previously a director of Friends Provident Limited since July 2008. Trevor is a member of the Investment Oversight Committee of the Issuer. He will become Vice-Chairman of the Issuer when Andy Briggs joins as Chief Executive Officer. Trevor is Chairman of the Financial Skills Partnership and a director of the Association of British Insurers, the International Insurance Society and the National Skills Academy Financial Services. Prior to joining Friends Provident Limited he was Chief Executive of Standard Life Assurance Limited, the principal subsidiary of Standard Life plc. In the past, Trevor has held key positions at Manulife Financial Corporation, as Executive Vice President Canadian Operations and subsequently President and Chief Executive, Japan. In his earlier career he held senior positions in National Australia Bank and Legal & General Australia.

Andrew Parsons, executive director, aged 46

Andy Parsons was appointed as an interim Executive Director, Finance of the Issuer and as a director of the Guarantor on 15 September 2010. Andy was appointed as a director of Friends Provident Group Limited on 25 March 2011. Previously Andy had been with the AXA Group since 2001 and during this time has held a number of senior roles, including Chief Financial Officer for AXA UK, and has led a number of key strategic transformation projects. Andy has over 17 years' experience across a range of financial management and change roles in UK financial services including Allied Dunbar and Zurich Financial Services. Andy holds a 1st Class Honours Degree in Mechanical Engineering and is a Chartered Accountant.

Robin Phipps, non-executive director, aged 60

Robin Phipps was appointed as an independent director of the Issuer on 5 November 2009, having previously been a director of Friends Provident Limited since November 2008. Robin is Chairman of the With Profits Committees, member of the Audit Committee and the Board Risk and Compliance Committee. He is currently a non-executive director of the Partnership Group of Companies. Between 1982 and 2007 he 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, Robin held various roles in IT with South Eastern Gas Board.

Belinda Richards, non-executive director, aged 53

Belinda Richards was appointed as an independent director of the Issuer on 1 June 2010. She is a member of the Board Risk and Compliance Committee of the Issuer. Belinda is also a non-executive director of Grainger plc. Belinda has extensive experience in all aspects of merger integration and separation services and was previously a senior Corporate Finance partner at Deloitte & Touche LLP for ten years, where she was the Global Head of Merger Integration and Separation Advisory Services, a position she held until May 2010 when she retired from the role. Her recent clients include a number of leading UK and global banks and insurance companies.

Gerhard Roggemann, non-executive director, aged 63

Gerhard Roggemann is a non-executive director of the Issuer and was appointed on 5 November 2009. Gerhard was also appointed as an independent director of Resolution Limited on 5 November 2009 and he is also currently Vice Chairman of Hawkpoint Partners Europe and an Independent Director of F&C Asset Management Plc. He is Chairman of the Supervisory Board of Günter Papenburg AG and Deputy Chairman of the Supervisory Board of Deutsche Börse AG as well as a member of the Supervisory Board of Deutsche Beteiligungs AG. Gerhard spent much of his professional career with financial services firm JP Morgan, where his positions included Managing Director of JPMorgan's German branch in Frankfurt and Regional Treasurer Asia Pacific located in Tokyo. He spent a total of 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, non-executive director, aged 60

Derek Ross was appointed as an independent director of the Issuer on 1 February 2010. He is Chairman of the Board Risk and Compliance Committee, a member of the Audit Committee and a member of the Investment Oversight Committee of the Issuer. Derek is also the Deputy Chairman of EuroCCP Limited, non-executive director of Sumitomo Bank and Access Bank UK Limited, and a member of the board of the Depository Trust and Clearing Corporation in the United States. He has extensive experience in audit and financial advisory services, particularly in areas of treasury and risk management. He was a Senior Partner of Deloitte & Touche LLP for 18 years and held the position of corporate treasurer and tax manager with Black & Decker for 7 years.

Karl Sternberg, non-executive director, aged 41

Karl Sternberg was appointed as an independent director of the Issuer on 20 May 2010. He is Chairman of the Investment Oversight Committee of the Issuer. Karl is also a non-executive director at JP Morgan Income & Growth Trust plc and Whitbread Pension Trustees, a founding partner of Oxford Investment Partners Limited and director of Lowland Investment Company plc. He has wide-ranging 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.

John Tiner, non-executive director, aged 54

John Tiner was appointed as a non-executive director of the Issuer on 26 August 2009. John was previously Chief Executive of the FSA, a position he held between September 2003 and July 2007 when he retired from the role. He initially joined the FSA in June 2001 as Managing Director of Consumer, Insurance and Investment Business and went on to lead 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 Andersen, responsible for its worldwide financial services practice. He joined Andersen in 1976, working mainly with banking and capital markets clients and led the Andersen team appointed by the Bank of England to investigate the collapse of Barings Bank and draw out the lessons to be learned. John is also a non-executive director of the Credit Suisse Group and a non-executive director of Lucida plc. He was awarded a CBE in 2008 in recognition of his services to the finance industry and in 2010 was made an Honorary Doctor at his former college, Kingston University, in recognition of his contribution to the finance industry.

Ian Maidens, alternate non-executive director, aged 46

Ian Maidens was appointed as a non-executive director of the Issuer on 26 August 2009, as an alternate director for Clive Cowdery. He is a member of the Investment Oversight Committee of the Issuer. Ian was Group Chief Actuary and Head of Corporate Development at Resolution plc. He 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 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-profits 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 46

Jim Newman was appointed as a non-executive director of the Issuer on 4 September 2009, as an alternate director for John Tiner. He is a member of the Audit Committee and the Board Risk and Compliance Committee of the Issuer. 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 insurance 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.

Evelyn Bourke

Please see above.

David Hynam

Please see above.

Lindsay J'Afari-Pak, director, aged 40

Lindsay J'Afari-Pak was appointed as a 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. Originally a classics graduate of Trinity College Oxford (1988-1992), 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 she has specialised in the taxation of insurance companies.

Lindsay became a director of the joint trustee board of the AXA UK Group Pensions Scheme in March 2009 as a company-nominated trustee and a director of Friends ASLH Limited and its principal subsidiaries in November 2009. On joining Friends Provident, she remained a director of the acquired companies in the AXA UK Life Business and also became a director of the Friends Provident operating life companies.

She is a member of the ABI's Tax Strategy Committee and plays an active role in a number of industry working groups which are working (together with HMT and HMRC) on reform to the life tax regime as Solvency II approaches.

Trevor Matthews

Please see above.

Andrew Parsons

Please see above.

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.

Major shareholders of the Issuer

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. As at 15 April 2011 (being the latest practicable date prior to the publication of this Prospectus), Resolution Limited had been notified under the Disclosure and Transparency Rules of the following direct and indirect substantial interests in the issued ordinary shares of Resolution Limited:

Shareholder	*Number of ordinary shares*	*Approximate percentage of issued ordinary share capital*
Lloyds Banking Group Plc	144,565,300	9.95
Aviva Plc and its subsidiaries	72,048,919	4.96
FMR LLC	63,422,247	4.37
Legal & General Group Plc	52,660,432	3.62

Significant subsidiary undertakings of the Issuer

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

Subsidiary undertaking	*Principal activity*	*Percentage of issued share capital held*
Friends Provident Distribution Holdings Limited	Holding Company	100
Friends Provident Group Limited	Holding Company	100
Friends Provident Limited	Holding Company	100
Friends Provident Life and Pensions Limited	Insurance	100
Friends Provident Life Assurance Limited	Insurance	100
Friends Provident Pensions Limited	Insurance	100
Friends Provident Reinsurance Services Limited	Reinsurance	100
Friends Provident Management Services Limited	Management Services	100
Friends Provident International Limited(1)	Insurance	100
Lombard International Assurance SA(2)	Insurance	99
Sesame Bankhall Group Limited	IFA Distribution Business	100
Friends ASLH Limited	Holding Company	100
Friends Life Company Limited	Insurance	100
Friends Life Assurance Society Limited	Insurance	100
Friends Life Services Limited	Service Company	100
Friends Annuities Limited	Insurance	100
Bupa Health Assurance Limited	Insurance	100

(1) Incorporated in the Isle of Man

(2) Incorporated in Luxembourg

Friends Provident Life Assurance Limited, Friends Provident Pensions Limited, Friends Provident Reinsurance Services Limited, Friends Provident International Limited, Bupa Health Assurance Limited, Friends Life Assurance Society Limited and Friends Life Company Limited are 100 per cent. subsidiaries of Friends Provident Life and Pensions Limited (the Guarantor).

UK INSURANCE REGULATION

The Friends Life group's insurance operations 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 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, the GENPRU, the INSPRU and the IPRU (INS).

On 16 and 17 June 2010 the UK government announced plans to reform the institutional framework for financial regulation in the UK. In particular, the government intends to break up the FSA and to reallocate its current responsibilities between three new regulatory authorities. The Treasury published its first consultation document in July 2010 and its second in February 2011.

A new Prudential Regulation Authority ("**PRA**") will be created, which will operate as a subsidiary of the Bank of England, with responsibility for carrying out the prudential regulation of authorised financial services firms including insurance companies, banks and investment firms. It is envisaged that the PRA will be entirely focussed on financial stability. At the same time, a new Financial Conduct Authority ("**FCA**") will be established to regulate the conduct of every authorised firm, wholesale and retail. The FCA's purpose is to protect and enhance the confidence of all consumers of financial services. Finally, a new Economic Crime Agency will be established to tackle serious economic crime, although it is envisaged that the FCA will absorb the FSA's powers of criminal enforcement.

The government has previously announced that it will create an independent Financial Policy Committee ("**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 government intends that the FPC will be given powers to give directions to the PRA. An interim FPC was announced in February 2011, tasked with undertaking, as far as possible, the forthcoming statutory FPC's macro-prudential role.

The government has committed to ensuring that the legislation required to implement these structural reforms will be passed by the summer of 2012 but in the meantime a process of transitioning to this new framework for the UK financial regulatory system will be commenced.

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 FSMA will in due course cease to be the governing legislation for the UK financial regulatory regime and/or that 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 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.

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.

The FSA, in deciding whether to grant a Part IV Permission, is required to determine whether the applicant satisfies the requirements of FSMA, including the applicant's ability to meet a set of "threshold conditions" (the "**Threshold Conditions**"). These are the minimum conditions that must be satisfied (both at authorisation and on an ongoing basis) in order for a firm to gain and to continue to have permission to undertake regulated activities in the United Kingdom. The 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).

A company'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.

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 in recent years, 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 to the FSA appropriately 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 the Senior Management Arrangements, Systems and Controls Sourcebook ("**SYSC**").

(A) 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.

(B) 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.

(C) 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. The FSA recently consulted (Consultation Paper 10/03) on a proposal to extend the significant influence function regime and introduce a new, more detailed framework of controlled functions. The FSA published these revisions to the rules and guidance in September 2010 and they are due to come into effect from 1 May 2011.

Broadly speaking, the regime has been extended by bringing in a new framework of classification of controlled functions, widening the parent entity significant influence function, and encouraging firms to establish a board risk committee and to appoint a chief risk officer. In addition, a number of new, more specific, controlled functions have been introduced that capture the key roles in organisations. These include the chairman, senior independent director, chairman of the risk, audit and remuneration committees, and, at the level below the board, the finance, risk and internal audit

functions. In a separate consultation exercise, the FSA has also proposed creating a new controlled function with specific responsibility for client money and assets.

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 its COBS and its ICOBS.

COBS applies to designated investment products, some of which are 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 Insurance Mediation Directive 2002/92/EC ("**IMD**") (which is currently under review: see the section headed "*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, although the product documentation will need to be fully compliant for retail sales.

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 outcomes for customers more than the means by which the 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. 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.

All firms involved in retail business were required to ensure that they could demonstrate compliance with the FSA's TCF principle by 31 December 2008. In November 2008, the FSA announced that it would no longer continue with its TCF initiative and instead the TCF assessment would form, and subsequently has formed, part of its core supervisory work from January 2009 rather than September 2009 (as originally planned).

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.

Change of Control of Authorised Firms

Under the UK change of control regime, a person who has decided to acquire or increase 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 to or above one of the thresholds referred to below. 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 discuss any prospective changes of which it is aware with the FSA, regardless of whether the controller or the proposed controller proposes to submit a change of control application.

A proposed "controller" for the purposes of the controller regime is any natural or legal person, or such persons "acting in concert", who has or have taken a decision to acquire or increase, directly or indirectly, a qualifying holding in, broadly, a UK FSA-authorised firm (including a UK FSA-authorised insurance company).

A person acquires "control" over a UK FSA-authorised insurance company where such person acquires 10 per cent. or more of the shares or voting rights in that company or in its parent undertaking or otherwise becomes able to exercise significant influence over the management of the company by virtue of acquiring shares or voting power. In respect of increases and decreases, the relevant thresholds are 20, 30 and 50 per cent., or an acquired insurance company becoming (or ceasing to be) a subsidiary undertaking of the acquirer.

An exhaustive list of criteria for determining the suitability and financial soundness of a proposed "controller" is set out in FSMA. Guidance in this area has also been issued by CEIOPS which applies across the EEA, including the UK.

The FSA has 60 working days from the day on which it acknowledges the receipt of a notice of control 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, are 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.

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 2010/11 for life and pensions provision is £2 million and for the life and pensions intermediation sub-class is £11.5 million.

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**") consists of various different 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, the enhanced capital requirement ("**ECR**"). The ECR is intended to provide a more risk responsive measure of insurers' capital requirements in respect of with-profits business. The firms falling within

this regime (being firms that have more than £500 million of with-profits liabilities or that have voluntarily elected to be within this regime), such as the Guarantor, 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:

(i) 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

(ii) 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:

(i) the base capital requirement for long-term insurance business applicable to that firm; and

(ii) the LTICR.

(C) Enhanced Capital Requirement

This 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 "**WPICC**" in order to determine whether there is a need to supplement the mathematical reserves of a firm in order to ensure that the firm holds adequate financial resources for the conduct of its with-profits insurance business. The WPICC is assessed by comparing two separate measurements of the firm's financial resources requirements in respect of its with-profits business. The FSA has termed this the "twin peaks" approach. The two separate "peaks" are, in overview:

- the firm's financial resources requirement comprised by the mathematical reserves plus the LTICR. This is known as the "regulatory peak"; and
- 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 with-profits policyholders fairly and this, in turn, is linked to the requirements on with-profits governance and, in particular, the requirement that with-profits insurers have to publish Principles and Practices of Financial Management setting out how the insurer intends to exercise its discretion under with-profits 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

In addition to the CRR, the FSA requires all insurance firms (whether or not they calculate an ECR) to carry out an Individual Capital Assessment ("**ICA**"). 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 and any margins elsewhere in the business. Companies that can demonstrate that they have identified and have assessed their risks and have appropriate controls to mitigate those risks are less likely to have a capital add-on.

ICG is only 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.

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 fifteen 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 the Guarantor, 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 either 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 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 paragraphs 9.40 to 9.46 of IPRU(INS) and chapter 6 of INSPRU.

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 solvency 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 calculation to the solvency margin calculation must be carried out to provide for deficits in the regulated related undertaking and to exclude all assets deriving from related bodies 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.

The FSA's powers

The FSA has broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to grant and, in specific circumstances, to vary or cancel permissions, 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, rather than shareholders 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 insurance company if it is not satisfied that the company has met its capital adequacy requirement or otherwise meets the Threshold Conditions.

The FSA may, from time to time, make enquiries or conduct inspections of the companies which it regulates regarding 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 insurance company if it considers, for instance, that it is appropriate in order to protect policyholders or potential policyholders against the risk that the company may be unable to meet its liabilities, that the Threshold Conditions may not be met, that the company or its parent has failed to comply with obligations under relevant legislation, that the company has furnished misleading or inaccurate information 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.

Disciplinary or enforcement action or any other regulatory proceedings could result in adverse publicity for, or negative perceptions regarding, the Friends Life group, 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 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 "*The Friends Life group is subject to extensive regulation and must comply with minimum capital requirement*").

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 to be found in the Money Laundering Regulations 2007 (SI 2007/215). 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.

Under the Money Laundering Regulations, life assurance companies 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).

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 current supervisory framework. The legislation takes the form of Regulations, which are European legislative instruments that are directly applicable in Member States, and therefore will not require implementing in each Member State through domestic legislation. The new regulatory framework came into force on 1 January 2011.

Firstly, at the "macro-prudential" level a European Systemic Risk Board (ESRB) monitors and assesses risks to the 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).

Secondly, at the "micro-prudential" level a European System of Financial Supervisors (ESFS) was created for the supervision of financial bodies as individual institutions. This involved the creation of a network of national financial supervisors (regulatory authorities) working in conjunction with 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) — were created through the transformation of the existing Committees in these areas, which had advisory powers only, namely the Committee of European Banking Supervisors (CEBS), the CEIOPS and the Committee of European Securities Regulators (CESR). These three new authorities have powers to set technical standards that will apply across Europe, and to intervene to some extent in the supervisory role of individual national regulatory authorities.

The changes to financial services supervision at a European level may have some impact on the Friends Life group because the new European Supervisory Authorities may have a more direct supervisory and standard-setting role than the existing European Committees, but at this stage it is unclear as to what the nature and extent of that impact will be.

Future developments

Solvency II Directive

The EU is currently developing a new solvency framework for insurance companies, known as "Solvency II". 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. Akin to the banking capital adequacy framework known as "Basel II", Solvency II will be based on three pillars; minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements. 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 is required to be implemented through

member states adopting and publishing national laws, regulations and administrative provisions by 31 December 2012. The official date that Solvency II will enter into force will be 1 January 2013.

The European Commission has initiated the process of developing detailed rules that will complement the high-level principles of the Directive, referred to as "implementing measures" (Level 2). The Commission is expected to present the proposal to the European Parliament and the Council in June 2011, with final adoption of the implementation measures expected to be in November 2011.

At "Level 3", non-binding standards and guidance will be agreed between national supervisors. By 31 December 2010, CEIOPS had begun to publish Level 3 guidance (guidance concerning the pre-application process for internal models was published in March 2010) to the European Commission. However, on 1 January 2011 CEIOPS was replaced by EIOPA. The European Commission has asked EIOPA not to publicly consult on Level 3 guidance until after June 2011. However, pre-consultations on Level 3 texts have started among selected parties and the final guidance should be released by EIOPA in the second quarter of 2012. At "Level 4", the European Commission will monitor compliance by Member States and take enforcement action where necessary.

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 a pre-application procedure for internal models to enable those firms who wish to make use of them to submit applications for approval at an appropriate stage (the FSA is expecting to receive internal model applications from November 2011). 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.

Further, the European Commission published a draft Omnibus 2 Directive on 19 January 2011. This Directive seeks to amend the Level 1 Solvency II Directive published in 2009. The amendments include the granting of power to the 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.

There is significant uncertainty regarding the final outcome of the consultation process on Level 2 implementing measures 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 its Retail Distribution Review (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.

The FSA is in the process of consulting and finalising rules and guidance on various aspects of the RDR with a view to achieving full implementation of the new rules by the end of 2012. Implementation of the new rules is likely to have a significant impact on the investment advisory industry with increased compliance costs during the transitional period, as firms change their business models from compliance with the old rules to compliance with the new rules. In particular, under the new rules financial advisers will be able to describe themselves as 'Independent' or 'Restricted' with a new requirement for comprehensive and unbiased analysis over a wide range of products for those describing themselves as 'Independent'.

The new rules will also have a permanent impact on insurers' and distributors' charging models. 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 charging tariffs in accordance with FSA rules.

Taken together, the RDR proposals are likely to affect the business models, and potentially therefore the profitability, of not only the customer-facing distributor and advisor intermediary firms in the

Friends Life group but also the insurance firms that provide the underlying products which are distributed or recommended by those intermediary firms.

In addition, the European Commission is currently working on preparing a legislative proposal around Packaged Retail Investment Products with the aim of harmonising pre-contractual disclosures and selling practices. The consultation on legislative steps for the Packaged Retail Investment Products initiative closed on 31 January 2011. The precise nature of the proposals is currently unclear, but such proposals may have an impact on how Packaged Retail Investment Products are manufactured and sold. The Commission has stated that the legislative proposals for Packaged Retail Investment Products will be introduced through the revisions of the IMD and the Markets in Financial Instruments Directive (following the ongoing review of each).

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 put forward a proposal for revising 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 (known as "**IMD2**").

The technical advice requested, includes (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 Commission published a consultation document on 26 November 2010. The consultation period closed on 28 February 2011. The IMD2 legislative proposal is due to be published shortly after the end of the consultation period with the aim that the text will be adopted in the fourth quarter of 2011.

As the IMD review is at an early stage, there remains significant uncertainty as to its outcome and consequently there is a risk that the measures finally adopted could be adverse for the Friends Life group.

The Test-Achats Case

On 1 March 2011 the European Court of Justice ("**ECJ**") published its ruling in the Test-Achats case. The ECJ has ruled that the exemption in Article 5(2) of Directive 2004/113/EC 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. 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.

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 and until there is more clarity as to the manner in which the ruling is implemented in any revised directive and any domestic implementing legislation), and therefore at this stage there remains considerable uncertainty as to what the nature and extent of the impact of this ruling on the Friends Life group will be.

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 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 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 deduction or withholding 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 through a branch or agency or, in the case of a corporate holder, carries on a trade through a permanent establishment 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 exemptions for certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.

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 would not apply if HM

Revenue & Customs sought 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 under the provisions of any applicable double tax treaty. Such payments by the Guarantor may not be eligible for the exemption for securities listed on a recognised stock exchange as described above.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated on or around 18 April 2011 (the "**Subscription Agreement**"), Royal Bank of Canada Europe Limited and Barclays Bank PLC (the "**Joint Bookrunners**") have agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe for £500,000,000 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.

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.

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.

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 the Issue Date, 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 October 2010 and of a committee of the Issuer's Board passed on 15 April 2011 and the giving of the Guarantee relating to the Subordinated Notes by the Guarantor has been authorised by a resolution of the Guarantor's Board passed on 15 April 2011.

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 2010 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 31 December 2010 (the date to which the latest financial information incorporated into this Prospectus has been prepared).

Governmental, Legal or Arbitration Proceedings

No 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 8.25 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 XS0620022128.

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 the section headed "Documents Incorporated by Reference", 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.

On 15 December 2010 the Issuer was substituted for Friends Provident Group Limited as the issuer of the £209,895,000 6.875 per cent. Step-up Tier One Insurance Capital Securities and the £267,837,000 6.292 per cent. Step-up Tier One Insurance Capital Securities (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 Provident Group Limited as the issuer of the £161,713,000 12 per cent. Fixed Rate Guaranteed Subordinated Notes due 2021, which accordingly now constitute unsecured and subordinated securities of the Issuer. These securities continue to be guaranteed on an unsecured and subordinated basis by the Guarantor.

Following completion of the BHA acquisition on 31 January 2011, BHA receives transitional services from certain companies within the Bupa Group pursuant to a transitional services agreement, including (but not limited to) human resources, information technology and finance. The duration of the services differ from service to service, and are to be provided in a manner consistent with and to a standard equivalent to that which BHA received in the 12 month period prior to the date of completion of the BHA acquisition. The parties are obliged to agree a written plan for BHA to migrate from the transitional services. The aggregate liability of the Bupa service providers is limited to amount equal to the fees payable for the services during the term of the transitional services agreement. Each party to the contract has the right to terminate the agreement early if the other suffers an insolvency event or is in material breach of the terms of the agreement.

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 £400m.

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 only during usual business hours on any weekday (Saturdays and public holidays excepted), free of charge, at the Document Storage Mechanism, the Financial Services Authority, 25 North Colonnade, Canary Wharf, London E14 6HS, United Kingdom.

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 of this Prospectus entitled "Documents incorporated by reference".

In addition, the Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com/en-gb/pricesnews/marketnews*.

Auditors

Ernst & Young LLP, member of the Institute of Chartered Accountants in England and Wales, 1 More Place, London SE21 2AF have audited, and rendered unqualified audit reports on, the accounts of each of the Issuer and the Guarantor and each of the financial statements of the members of the Friends Life group listed on page 4 of this Prospectus for the year ended 31 December 2010. The auditors have no material interest in either the Issuer or the Guarantor or any other member of the Friends Life group.

DEFINITIONS

The following definitions apply throughout this Prospectus unless the context otherwise requires:

Acquisitions	means the AXA Acquisition and the BHA Acquisition;
AmLife	means AmLife Insurance Berhad;
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 Business	means Friends ASLH Limited and its subsidiaries as at 15 September 2010 including, after completion of the separation and integration in accordance with the Framework Agreement and following exercise of the rights of the Issuer pursuant to the Option Agreement, Winterthur Life UK Limited 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 Retained Business	means that part of the AXA UK Life and Savings Business which is not the AXA UK Life Business;
BHA	means 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	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;
Companies Act	means the Companies Act 1985 or, as the context requires, the Companies Act 2006, and shall be construed as a reference to the same as they may have been, or may from time to time be, amended, modified or re-enacted;
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;

EEV	means European Embedded Value, a basis upon which certain supplementary financial information is prepared in accordance with the European Insurance CFO Forum European Embedded Value Principles ("**EEV Principles**"), issued in May 2004 and supplemented by the Additional Guidance of European Embedded Value disclosures published in October 2005;
EIOPA	means the European Insurance and Occupational Pensions Authority;
Embedded Value	means the present value of the shareholders' interest in the earnings distributable from assets allocated to the life businesses after allowing for the aggregate risks in that business;
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.;
F&C	means F&C Asset Management plc, a company incorporated in Scotland (company number SC073508);
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.;
FOS	means the Financial Ombudsman Service;
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 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 group	means the Issuer and its subsidiaries from time to time;
Friends Life Services Limited	means Friends Life Services Limited, formerly known as Sun Life Services plc, a company incorporated in England and Wales (company number 03424940);
Friends Provident	means the Issuer and its subsidiaries except for the AXA UK Life Business and BHA;
Friends Provident Group Limited	means Friends Provident Group Limited, formerly known as Friends Provident Group plc, a company incorporated in England and Wales (company number 06861305);
Friends Provident International or FPIL	means Friends Provident International Limited, a company incorporated in the Isle of Man (company number 011494C);
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;
GOF Portfolio	means the Guaranteed Over Fifty plans and variants thereof, Easycover plans and funeral cover plans, in each case issued by Friends Life Company Limited from its non-profit fund prior to the effective date of the Part VII Transfer of the GOF Portfolio;
Guarantor	means Friends Provident Life and Pensions Limited, a company incorporated in England and Wales (company number 04096141);
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;
ICG	means Individual Capital Guidance;
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;
INSPRU	means the Prudential Sourcebook for Insurers, part of the FSA Handbook;
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 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;
Maturity Date	means 21 April 2022;
MCEV	means Market Consistent Embedded Value, a basis upon which certain supplementary financial information is prepared in accordance with the European Insurance CFO Forum Market Consistent Embedded Value Principles ("**MCEV Principles**"), issued in June 2008, and re-issued in amended form in October 2009;
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);
Moody's	means Moody's Investors Service Ltd.;
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 Winterthur Life UK Limited 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;
Premium Listing	means a listing by the FSA of equity securities on the Official List in accordance with Chapter 6 of the Listing Rules (known as a Primary Listing prior to 6 April 2010);
Prospectus	means this document;
Prospectus Directive	means the Prospectus Directive (2003/71/EC) and includes any relevant implementing measures in each EEA State that has implemented 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;
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;
Standard Listing	means a listing by the FSA of equity securities on the Official List in accordance with Chapter 14 of the Listing Rules (known as a Secondary Listing prior to 6 April 2010);
sterling or £	means the lawful currency of the UK;
Subordinated Notes	means the £500,000,000 8.25 per cent. Fixed Rate Subordinated Notes of the Issuer due 2022;
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 38 to 62 herein;
Threshold Conditions	means the minimum conditions which must be satisfied in order for a firm to gain and continue to have permission 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 Friends Life Company Limited prior to the effective date of the Part VII Transfer of the TIP Wealth Portfolio;
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 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;

Wealth Portfolio	means the individual business and the corporate trustee investment plans administered on the Embassy policy administration system and supported by the AMAPS policy administration system, in each case issued by Winterthur Life UK Limited prior to the effective date of the Part VII Transfer of the Wealth Portfolio; and
WLUK Portfolio	means the policies issued by Winterthur Pension Funds UK Limited (now re-named AXA Wealth Limited) prior to 24 June 2010 and 100% re-insured to Winterthur Life UK Limited under a reassurance treaty dated 31 December 2007 between Winterthur Pension Funds UK Limited (now re-named AXA Wealth Limited) and Winterthur Life UK Limited.

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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