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This Prospectus has been distributed or made available to you in electronic form. You are reminded that documents made available or transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither esure Group plc nor Deutsche Bank AG, London Branch nor any person who controls any such person or any director, officer, employee, agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed or made available to you in electronic format and the hard copy version made available to you on request from esure Group plc or Deutsche Bank AG, London Branch.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the U.S.

Nothing in this electronic transmission constitutes an offer of securities for sale to persons other than those described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described herein.

Neither the Manager nor any of its respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Issuer or the offer. The Manager and its respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty express or implied, is made by the Manager or its respective

affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document.

The Manager is acting exclusively for the Issuer and no one else in connection with the offer. The Manager will not regard any other person (whether or not a recipient of this document) as its client in relation to the offer and will not be responsible to anyone other than the Issuer for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

PROSPECTUS DATED 18 DECEMBER 2014

esure Group plc

(Incorporated with limited liability in England and Wales with registered no. 07064312)

£125,000,000
6.75 per cent. Subordinated Notes due 2024

Issue price: 98.703 per cent.

The £125,000,000 6.75 per cent. Fixed Rate Subordinated Notes due 2024 (the "**Notes**") are issued by esure Group plc ("**esure**" or the "**Issuer**") and constituted by a trust deed to be dated on or about 19 December 2014 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and the Trustee (as defined in "*Terms and Conditions of the Notes*" (the "**Conditions**", and references herein to a numbered "**Condition**" shall be construed accordingly))

Application has been made to the UK Financial Conduct Authority (the "**FCA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UKLA**" and the "**FSMA**", respectively) for the Notes to be admitted to the official list of the UKLA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). This Prospectus has been approved by the UKLA for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). This document comprises a prospectus for the purposes of the Prospectus Directive.

The Notes will bear interest from 19 December 2014 (the "**Issue Date**") at the rate of 6.75 per cent. per annum, payable (subject to the following proviso) semi-annually in arrear on 19 June and 19 December in each year commencing on 19 June 2015; provided that the Issuer will be required to defer any payment of interest which is otherwise scheduled to be paid if (i) such payment cannot be made in compliance with the solvency condition described in Condition 2.2 (the "**Solvency Condition**") or (ii) a Regulatory Deficiency Interest Deferral Event (as defined herein) has occurred and is continuing, or would occur if such interest payment were made. Any interest so deferred shall, for so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest, and will be payable as provided in Condition 5.2.

Unless previously redeemed or purchased and cancelled, the Notes will mature on 19 December 2024 (the "**Maturity Date**") and shall, subject to the satisfaction of the Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event (as defined herein) having occurred, be redeemed on the Maturity Date. Prior to any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer will be required to have complied with relevant legal or regulatory requirements including as to notifications to, or consent or non-objection from, (in each case, if and to the extent required) the Relevant Regulator (as defined herein) and to be in continued compliance with Regulatory Capital Requirements (as defined herein) applicable to it. Subject to that, to the Relevant Rules implementing Solvency II, to satisfaction of the Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, the Notes may be redeemed at the option of the Issuer before the Maturity Date upon the occurrence of certain specified events relating to taxation or a Capital Disqualification Event (as defined herein) at their principal amount together with any accrued but unpaid interest to (but excluding) the date of redemption and any Arrears of Interest (as defined herein) and the Issuer will, in such circumstance, also have the right to substitute the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Dated Tier 2 Securities, as described in *"Terms and Conditions of the Notes - Redemption, Substitution, Variation and Purchase"*.

The Notes will be direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the winding-up of the Issuer or in the event of an administrator of the Issuer being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all Senior Creditors (as defined herein) of the Issuer.

The Notes will be issued in registered form and represented upon issue by a registered global certificate which will be registered in the name of a nominee for a common depositary ("**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about the Issue Date. Definitive Notes will be issued only in the limited circumstances – see *"Summary of Provisions relating to the Notes while in Global Form"*. The denomination of the Notes shall be £100,000 and integral multiples of £1,000 in excess thereof.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus. The Notes will not be rated on issue.

Sole Lead Manager and Structuring Adviser

Deutsche Bank

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive"**) and to give information with regard to the Issuer and its subsidiaries taken as a whole (the "**Group**") and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

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

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

Any information contained in this Prospectus which has been sourced from a third party has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by any third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person is or has been authorised to give any information or to make any representations other than those contained in or consistent with this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Manager (as defined in *"Subscription and Sale"* below) or the Trustee. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that any other information supplied in connection with the Notes is correct as of any time after the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Manager and the Trustee have not separately verified the information contained in this Prospectus. Neither the Manager nor the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Prospectus or any other information provided by the Issuer in connection with the distribution of the Notes. Neither the Manager nor the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the distribution of the Notes. Neither this Prospectus nor any other information supplied in connection with the distribution of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer, the Manager or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the distribution of the Notes should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. Neither the Manager nor the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to their attention.

In the ordinary course of business, the Manager has engaged and may in the future engage in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither this Prospectus nor any other information provided by the Issuer in connection with the offering of the Notes constitutes an offer of, or an invitation by or on behalf of, the Issuer or the Manager or the Trustee or any of them to subscribe for, or purchase, any of the Notes (see *"Subscription and Sale"* below). This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Trustee and the Manager do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee or the Manager or any of them which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States of America ("**U.S.**") and the United Kingdom. Persons in receipt of this Prospectus are required by the Issuer, the Trustee and the Manager to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offer and sale of the Notes and on the distribution of this Prospectus, see "*Subscription and Sale*" below.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the U.S. For a description of certain restrictions on the offer and sale of the Notes and on the distribution of this Prospectus, see "*Subscription and Sale*" below.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

In this Prospectus, unless otherwise specified, all references to "**pounds**", "**sterling**", "**£**", "**p**" or "**pence**" are to the lawful currency of the United Kingdom.

Forward-Looking Statements

This Prospectus includes certain "forward-looking statements". Statements that are not historical facts, including statements about the beliefs and expectations of the Issuer and the Group and

any subsidiaries in the Group and their respective 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 or the 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 or the 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 and the Group and the environment in which the Issuer and the Group will operate in the future. These forward-looking statements speak only as at the date of this Prospectus.

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

In connection with the offering of the Notes, Deutsche Bank AG, London Branch in its capacity as the Manager (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions to support the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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Supplemental Prospectus

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the UKLA in accordance with Article 16 of the Prospectus Directive.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus prior to the Issue Date which is capable of affecting the assessment of the Notes, prepare a supplement to this Prospectus. The Issuer has undertaken to the Manager that it will comply with section 87G of the FSMA.

Documents Incorporated by Reference

This Prospectus should be read and construed in conjunction with:

(a) the annual financial statements of the Group for the financial year ended 31 December 2012, audited by KPMG Audit Plc, together with the audit report thereon (which appear at pages 7 to 91 (inclusive) of the Issuer's Directors report and financial statements 2012);

(b) the annual financial statements of the Group for the financial year ended 31 December 2013, audited by KPMG Audit Plc, together with the audit report thereon (which appear at pages 65 to 112 (inclusive) of the Issuer's Annual Report 2013);

(c) the interim results of the Group for the six months ended 30 June 2014, reviewed by KPMG LLP (which appear at pages 1 to 34 (inclusive) of the Issuer's interim report for the six months ended 30 June 2014); and

(d) the interim management results of the Group for the nine months ended 30 September 2014 (which appear at pages 1 to 2 (inclusive) of the Issuer's interim management statement for the nine months ended 30 September 2014),

which have been previously published or are published simultaneously with this Prospectus and which have been approved by the FCA or filed with it. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

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

Overview of the Principal Features of the Notes

The following overview refers to certain provisions of the terms and conditions of the Notes and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Prospectus. Terms which are defined in "Terms and Conditions of the Notes" below have the same meaning when used in this overview, and references herein to a numbered "Condition" shall refer to the relevant Condition in "Terms and Conditions of the Notes".

Issue	£125,000,000 6.75 per cent. Subordinated Notes due 2024.
Issuer	esure Group plc.
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent	Deutsche Bank AG, London Branch.
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
Status and Subordination	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders against the Issuer are subordinated in a winding-up of the Issuer in accordance with Condition 2.1 and the provisions of the Trust Deed.
Solvency Condition	Except in a winding-up, all payments in respect of the Notes (including, without limitation, payments of interest, Arrears of Interest and principal) will be conditional upon the Issuer satisfying the solvency condition described in Condition 2.2 (the "**Solvency Condition**"), and no amount will be payable in respect of the Notes until the same can be paid in compliance with the Solvency Condition.
Interest	The Notes will bear interest from (and including) the Issue Date at the rate of 6.75 per cent. per annum, payable (subject as provided under "*Deferral of Interest*" below) semi-annually in arrear on each Interest Payment Date.
Interest Payment Dates	19 June and 19 December of each year, commencing on 19 June 2015.
Deferral of Interest	The Issuer will be required to defer any payments of interest on the Notes which would otherwise be due on any Interest Payment Date if (i) such payment cannot be made in compliance with the Solvency Condition or (ii) a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such

payment of interest was made on such Interest Payment Date.

"**Regulatory Deficiency Interest Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing and any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions). See Condition 5.1.

Arrears of Interest

Any interest in respect of the Notes not paid on an Interest Payment Date due to the occurrence of a Regulatory Deficiency Interest Deferral Event or due to the operation of the Solvency Condition will, so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will be payable, in whole or in part, at any time at the option of the Issuer (subject to regulatory consent (if then required) and to the Solvency Condition and provided that a Regulatory Deficiency Interest Deferral Event is not subsisting and would not occur upon payment of the same) upon notice to Noteholders, and in any event all Arrears of Interest will (subject, in the case of (i) and (iii) below, to regulatory consent (if then required) and to the Solvency Condition) become payable upon the earliest of the following dates:

(i) the next Interest Payment Date which is not a Mandatory Interest Deferral Date; or

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

(iii) the date fixed for any redemption or purchase of Notes by or on behalf of the Issuer or any of its Subsidiaries pursuant to Condition 6.

No interest will accrue on Arrears of Interest. See Condition 5.2.

Redemption at Maturity

The Notes will, subject as provided under "*Deferral of Redemption*" below, be redeemed on 19 December 2024.

Deferral of Redemption

The Issuer will be required to defer any scheduled redemption of the Notes (whether at maturity or if it has given notice of early redemption in the circumstances described below under "*Early Redemption at the Option of the Issuer upon the occurrence of a Tax Event or a Capital Disqualification Event*") if (i) the Notes cannot be redeemed in compliance with the Solvency Condition, (ii) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed or (iii) (if then required) regulatory consent has not been obtained or redemption cannot be made in compliance with the Relevant Rules at such time.

In the event of any deferral of redemption of the Notes, the Notes will become due for redemption only in the circumstances described in Condition 6.1.

"**Regulatory Deficiency Redemption Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing and any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer or suspend repayment or redemption of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions).

Early Redemption at the Option of the Issuer upon the occurrence of a Tax Event or a Capital Disqualification Event

The Issuer may, subject to certain conditions and upon notice to Noteholders, at any time elect to redeem the Notes, at their principal amount together with Arrears of Interest (if any) and any other accrued and unpaid interest to (but excluding) the date of redemption, if a Tax Event or Capital Disqualification Event has occurred and is continuing.

A "**Tax Event**" will occur if:

(i) as a result of a Tax Law Change (as defined in Condition 6.3(a)), in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts (as defined in Condition 8) on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or

(ii) as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, (x) the Issuer would not

be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or (y) the Issuer would not to any material extent be entitled to have such deduction set off against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist), and in each such case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it.

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

(i) the entire principal amount of the Notes is fully excluded from counting; or

(ii) in the circumstances where such capability derives only from transitional or grandfathering provisions under the Directive, Solvency II or the Relevant Rules, as appropriate, less than 100 per cent. of the principal amount of the Notes outstanding at such time is capable of counting,

as Tier 2 Capital for the purposes of the Issuer or all or any part of the Group (which part includes the Issuer and at least one other member of the Group), whether on a solo, group or consolidated basis, except (in either case) where such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than a limitation derived from transitional or grandfathering provisions as set out in (ii) above). See Conditions 6.2, 6.3 and 6.4.

Substitution and Variation

The Issuer may, subject to certain conditions and upon notice to Noteholders, at any time elect to substitute the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Dated Tier 2 Securities if, immediately prior to the giving of the relevant notice to Noteholders, a Tax Event or Capital Disqualification Event has occurred and is continuing.

Additional Amounts

Payments on the Notes will be made without deduction or withholding for or on account of United Kingdom tax, unless such withholding or deduction is required by law. If any such withholding or deduction is required by law, the Issuer will pay such additional amounts as shall be necessary in order that the amounts received

	by the Noteholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction ("**Additional Amounts**"), subject to some exceptions, as described in Condition 8.
Events of Default and Enforcement	If default is made for 14 days or more in the payment of any interest (including, without limitation, Arrears of Interest) or principal due in respect of the Notes or any of them, the Trustee in its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer 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 Notes or the Trust Deed may be made by the Issuer pursuant to Condition 10.1, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or non-objection from, the Relevant Regulator which the Issuer shall confirm in writing to the Trustee.
Form and Denomination	The Notes will be issued in registered form and represented upon issue by a registered global certificate which will be registered in the name of a nominee for a common depositary for Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV on the Issue Date. Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the registered global certificate. The Notes will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.
Listing	Application has been made for the Notes to be admitted to the Official List of the UKLA and for the Notes to be admitted to trading on the London Stock Exchange's regulated market.
Ratings	The Notes will be unrated on issue and the Issuer does not currently intend to seek a rating in respect of the Notes.
Governing Law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection therewith, will be governed by and construed in accordance with English law.

Selling Restrictions The United States and the United Kingdom.

Risk Factors

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

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

Factors which the Issuer believes may be material to assess the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

1. FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS

1.1 The Group operates in a highly competitive environment where the growth of price comparison websites has increased price competition to attract and retain customers, new market entrants have in the past implemented aggressive pricing policies and growth targets and certain competitors have greater resources than the Group

The Group operates in a highly competitive environment and in the first half of 2014 gross written premiums were 1.9 per cent. lower than the first half of 2013. Beyond regulatory considerations, including raising and maintaining adequate levels of capital for its underwriting activities, there are relatively few barriers to entry for businesses seeking to compete with the Group's private motor and home insurance product lines, or with its insurance intermediary services. In recent years, developments in the general insurance industry, in particular the rapid growth of price comparison websites (also known as aggregators), have made it easier for consumers to compare the prices and terms offered by various insurance providers. Price comparison websites have also enabled the entry into the market of small and niche private motor and home insurers by allowing them to reach a large number of potential customers without incurring significant upfront marketing costs. The UK car insurance price comparison market is one of the most, if not the most, mature in Europe, with approximately 55 – 66 per cent. of new business sales in the UK car insurance market originating via price comparison website as at April 2014. The importance of price comparison websites (in particular, as the predominant retail distribution channel for motor insurance policies and as an increasingly important retail distribution channel for home insurance policies) has led, at times, to increased price competition to attract and retain target customers. If competitive pressures compel the Group to reduce prices, its operating margins and underwriting results may be materially adversely affected.

In the past, the Group has faced increased competition from new entrants into the market, including those with substantial new capital or those looking to leverage the status of recognised and trusted brands. For example, a number of supermarkets offer private motor, home and other general insurance through underwriting arrangements with insurers. In addition, new entrants to the general insurance market have in the past implemented aggressive pricing policies to achieve market penetration and gain market share. Lower pricing of policies by competitors seeking aggressive growth targets within the Group's target underwriting risk market for motor and/or home policies could lead to a reduction in the volume of policies written by the Group and/or force the Group to lower its pricing to compete. Either of these outcomes may have a material adverse effect on the Group's operating margins and underwriting results.

Some of the Group's principal and potential competitors have greater resources than the Group. To the extent such insurers were to target the segments of the motor and home insurance markets in which the Group operates or which it targets, competition for customers could become more intense, which may cause the average premium rates for private motor insurance and home insurance to fall and/or the expense of acquiring and properly servicing and retaining each customer to increase. For example, in the context of home insurance, mortgage lenders and banks may have greater resources than the Group and generally benefit from having recognised and trusted brands and early access to homeowners and potential home insurance customers through the mortgage application process. The Group may incur additional costs in seeking to attract customers from such competitors and may have to lower its home insurance premiums to attract such customers. Either of these outcomes, if they were to arise, could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.2 The Business is concentrated in the UK private motor and home insurance markets and is therefore particularly vulnerable to adverse developments in these markets (including material increases in the cost of claims and changes in the regulatory, legislative or judicial landscape)

The Group's primary business is underwriting motor and home insurance. Approximately 84 per cent. and 16 per cent. of the Group's gross written premiums for the first half of 2014 were generated from private motor insurance policies and home insurance policies, respectively.

Adverse developments in the markets for private motor and home insurance could cause the Group's results of operations or financial condition to suffer materially. Such developments may arise from a change in the applicable regulatory or legislative regime or in the approaches of regulators or judges who apply that regulation or legislation such that this leads, for example, to an increase in compensation awards or legal costs for personal injury claims or a decreased ability to evaluate risk. Sections 1.5 to 1.13 of these Risk Factors describe the material legal and regulatory risk factors that affect the Group.

The Business and the Group's results of operations may also be affected by adverse cost trends. In particular, factors which negatively affect cost trends for private motor insurance include:

- increased claimant and law firm awareness of the ability to claim for personal injury;
- increases in the costs of medical care (for example, as a result of increased investment in medical science leading to the continued rise in the cost of treatments and equipment and to increases in the life expectancy of catastrophic injury victims);
- increases in cost of provision of replacement cars due to use of credit hire arrangements; and
- inflation in motor repair costs and motor parts costs, as well as increases in used car prices.

Factors which negatively affect cost trends for private home insurance include:

- increases in the costs of repairs and building work;
- inflation in home contents goods; and
- the occurrence of severe weather events, climate change, and increased unpredictability of weather patterns and climatic conditions.

For example, in 2009 and 2010, the Group's motor Loss Ratio increased significantly due to a material increase in personal injury claims at the same time as the Group was growing the volume of policies in its portfolio. Such sudden and/or sustained inflation in claims costs experienced by the Group as a result of these or similar trends could have a material adverse effect on the Business and on the Group's results of operations or financial condition, particularly during the time it takes the Group to identify and respond to them.

The Group will not always be able to predict accurately the impact on the Group's business, prospects, results of operations and financial position of future legislation or regulation or changes in the enforcement, interpretation or operation of existing legislation or regulation. Changes in government policy, legislation or regulatory interpretation or enforcement (at a national and/or EU level) applying to companies in the financial services and insurance industries in any of the markets in which the Group operates may adversely affect the Group's underlying profitability, its product range, distribution channels, capital requirements and, consequently, results and financing requirements. This could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.3 The Business is exposed to the effects of changing weather patterns, climatic conditions and catastrophes. The unpredictability of these factors may result in differences between actual experience and the Group's assumptions on pricing and risk, leading to unexpected increases in the frequency and severity of claims incurred by the Group

The frequency and severity of claims incurred by the Group is affected by the incidence of adverse weather events and catastrophes.

Severe weather events like rainstorms, windstorms, snowstorms, hailstorms and freeze events represent a material risk to the Group and may cause significant damage to vehicles and homes, particularly in heavily populated areas where there is a commensurate concentration of risk. In severe cold weather, water pipes may freeze and burst, leading to water damage and a consequent increase in the number and value of home insurance claims. A period of prolonged or frequent rainstorms may cause increased levels of flood damage, whereas prolonged periods of dry and hot weather may lead to increased levels of subsidence, each of which can lead to an increase in the frequency and severity of home insurance claims. Similarly, in prolonged periods of wet or icy conditions, there is likely to be an increase in the number of motor accidents, increasing the frequency and severity of motor insurance claims suffered by the Group.

Weather-related events cannot be predicted with accuracy, and UK weather patterns and conditions in recent years have created additional unpredictability and uncertainty about risk exposure and future trends. As a result of the uncertainty and unpredictability of weather patterns and climatic conditions, the Group's assumptions regarding weather-related events may turn out to be incorrect in the future. Since the Group's assumptions on weather-related events and climatic conditions are a factor in the pricing of policy premiums and in its reserving policies and reinsurance arrangements, an increased incidence of such events in any one year or over a number of years could have a material adverse effect on the Business and on the Group's results of operations or financial condition. For example, the severe weather events in Q1 2014 affected the Group's claims costs by approximately £3 million more than expected in the first half of 2014.

The Group's assumptions on the impact of weather-related events and climatic conditions on the Business may also be affected by other external factors beyond its control. For example, in relation to home insurance, government initiatives or policies relating to flood control and the cover offered to properties at risk of flood, and changes to the funding or resourcing of such initiatives or policies, may result in increased pricing risk for the Group. The Statement of Principles on flooding that was agreed between Government and the insurance industry in 2000 which obliged insurance companies to offer flood cover as part of standard policies so long as they fit certain criteria expired on 30 June 2013.

Flood Re Limited ("**Flood Re**") was established by the ABI as a company limited by guarantee. It is intended that it will become an industry-owned and run company that will function as the reinsurance facility designated in secondary legislation, pursuant to the Water Act 2014 (the "**Water Act**"), as the Flood Re Scheme Administrator. It is to be funded by a levy on the insurance industry which is likely to equate to an average of £10.50 per policy.

Should Flood Re's funds and reinsurance cover be unable to fully meet its outgoings (i.e. below the estimated £250 million lower limit on its reinsurance), Flood Re would charge each of its member firms an additional amount to make up the shortfall, known as the "top-up levy". The top-up levy (or Levy II) would enable Flood Re to raise funds from all insurers (in proportion to their Levy I payments) in situations where Flood Re

does not have sufficient funds to meet its liabilities, below the estimated £250 million lower limit on its reinsurance. However, it is proposed that Parliament would approve a framework of controls, to ensure the circumstances under which the top-up levy might be called upon are limited to fulfilling Flood Re's purposes, and only when necessary.

The Directors believe the introduction of Flood Re could affect the Group in the short term by temporarily reducing the competitive advantage of its low flood risk book of business as other insurers with greater flood exposure within their books would be able to pass the cost of this exposure into a pool that the Group would in part pay for while having little benefit itself.

There is also a risk that the implementation of Flood Re could take the industry several years to implement and that a complete failure of the Statement of Principles during this period could lead to more rapid action by Government to oblige all insurers to take on their market proportion of high flood risk properties at 'affordable' prices.

Apart from covering adverse weather events, certain of the Group's insurance products also provide cover for losses from catastrophes, including acts of terrorism and civil disorder. While the Group seeks to reduce its exposure to such events through reinsurance, the incidence and severity of catastrophes are inherently unpredictable, and a single catastrophe or multiple severe catastrophes in any one period could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.4 Cyclical market patterns (including in relation to the economy, weather, competition and underwriting capacity in the insurance and reinsurance industries), some of which are unpredictable, may lead to cyclical fluctuations and volatility in the Group's results of operations or financial condition

Historically, the general (and, in particular, motor) insurance industry has been subject to cyclical patterns, some of which are unpredictable. In the past, this has caused significant cyclical fluctuations and volatility in the results of operations of general insurers. Many of the factors contributing to these cyclical patterns are beyond the control of any insurer, such as changes in the economic environment (including an economic downturn), the timing, location or severity of weather-related and catastrophic events, increases or decreases in the levels of insurance and reinsurance underwriting capacity in the industry and increases or decreases in levels of competition. The Group is exposed to the cyclical effects of such developments, including the need to increase or decrease policy prices to remain profitable and/or competitive, which could have a material adverse effect on the Business and the Group's results of operations or financial condition. Cyclicality may be made more acute if such developments coincide with each other.

The performance of the UK private motor insurance market as a whole has tended to fluctuate in cyclical patterns characterised by periods of significant competition in pricing and underwriting terms, which is known as a ''soft'' insurance market, followed by periods of lessened competition and increasing premium rates, the ''hard'' insurance market. From the end of 2009 until 2011, the market saw premium rates increase in response to the significant rise in frequency and severity of personal injury claims

experienced across the UK private motor insurance market in the late 2000s. However, by late 2011 premium rates had plateaued. 2012, 2013 and the first half of 2014 have seen material rate reductions, indicating a period of increased competition in pricing. During the third quarter of 2014, there were signs of rating stabilisation in the motor market as evidenced by the market rating indices, however it is too early to say if this represents a turn in the motor rating cycle or is a consequence of rating seasonality.

Although an individual company's financial performance is dependent on its own specific business characteristics, the profitability of most private motor insurance companies tends to follow this cyclical market pattern, with profitability generally increasing in hard markets and decreasing in soft markets. If the private motor insurance industry softens significantly over the short to medium term, the Group's profitability may be materially adversely affected. Over the longer term, the unpredictability and competitive nature of the motor and home insurance industries may lead to significant period-to-period and year-to-year volatility in the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.5 The Group is subject to extensive regulatory supervision and may, from time to time, be subject to enquiries or investigations that could divert management time and resources and result in fines, sanctions, variation or revocation of permissions and authorisations, reputational damage or loss of goodwill

The conduct of the Business is subject on an ongoing basis to significant regulatory supervision. Insurance underwriting and insurance intermediary services are activities that are highly regulated in the UK and such regulation is largely based on requirements contained in relevant EU directives. To carry out such activities, the Group is required to hold and maintain certain licences, permissions and authorisations and to comply on an ongoing basis with applicable rules and regulations.

The PRA and the FCA have wide powers to supervise and intervene in the affairs of insurance companies (which are authorised by the PRA but supervised by the PRA and the FCA), and have broad supervisory powers dealing with all aspects of the business activities of such entities including, among other things, the authority to grant and, in specific circumstances, to vary or cancel permissions and authorisations. The FCA has similar supervisory powers with respect to insurance intermediaries (which are authorised and supervised by the FCA).

Regulatory supervision is a feature of the insurance industry landscape. The PRA or the FCA, as appropriate, may from time to time make enquiries of the Group regarding its compliance with particular regulations governing the operation of its Business. The Group believes that it dedicates sufficient resources to its compliance programme for each of its regulated business activities. The Group endeavours to respond to regulatory enquiries in an appropriate way and to take corrective action when warranted. In the past, and in common with many other UK financial services firms, this has included providing undertakings to the FCA to revise contract terms where necessary. However, there can be no assurance that these efforts will eliminate the risk that the PRA or the FCA could find that the Group has failed to comply with applicable regulations or has not undertaken corrective action as required. It is also possible that the Group may attract increased attention from the PRA and the FCA as it grows.

Further, as the regulatory approach of the PRA and the FCA evolves, there may be further changes to the nature of, or policies for, prudential regulation and conduct of business supervision which differ from the approach previously taken by the FSA and this could lead to a period of uncertainty for the Group.

The FCA can conduct industry-wide investigations into certain products, selling practices or other aspects of UK insurers' businesses. In such cases, the FCA may determine that the Group has failed to comply with applicable regulations or, following such a determination, has not undertaken corrective action where required. The Competition and Markets Authority (the "**CMA**"), either alone or jointly with the FCA, may also conduct investigations into the competition in markets for certain insurance products and impose sanctions on firms.

The impact of the Group being found to be non-compliant by any such enquiry and/or investigation is difficult to assess or quantify. The FCA may, among other things, seek (in consultation with the PRA, as appropriate) to vary the Group's permissions, impose a fine or require the Group to undertake customer redress in such circumstances. The amount of any such potential fine or redress is currently indeterminable and may remain unknown for substantial periods of time after a determination of non-compliance has been made. In addition, such enquiries or investigations could result in adverse publicity for, or negative perceptions regarding, the Group. Such enquiries or investigations could also affect the Group's relations with current and potential customers, as well as divert management's attention away from the day-to-day management of the Business. This could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.6 In addition to the extensive regulatory supervision described in section 1.5 of these Risk Factors, the Group is also subject to wide-ranging legal requirements, changes to which may result in additional compliance costs and diversion of management time and resources. Failure to comply with such requirements may result in investigations, prosecution, disciplinary action, fines, reputational damage and the revocation of the Group's licences, permissions or authorisations

The conduct of the Business is subject to significant legal requirements and their interpretation, enforcement and development could adversely affect the Business and the Group's results of operations and/or financial condition.

Among other things, insurance laws and regulations applicable to the Group:

- require the maintenance of certain solvency levels, which are expected to change when the Solvency II Directive (which imposes new risk-based capital requirements on European-domiciled insurance companies) is implemented, which is currently scheduled for 1 January 2016;
- regulate transactions undertaken, including transactions with affiliates and intra-Group guarantees;
- affect the licensing of insurers and intermediaries (and their management);

- regulate the rating methodology and pricing of insurance policies;
- regulate the sale, marketing and content of insurance policies;
- regulate the management of various distribution channels;
- limit the right to cancel or refuse to renew policies;
- limit the types and amounts of investments made by the Group;
- require reinsurance, underwriting, or involuntary assignments of high-risk policies;
- regulate the right to withdraw from markets or terminate involvement with intermediaries;
- restrict the payment of dividends or other distributions; and
- require the disclosure of financial and other information to regulators and/or the general public.

Further, the Group's venture in the legal sector is subject to regulation by the Solicitors Regulation Authority as an Alternative Business Structure (as described in section 1.25 of these Risk Factors).

The Group's consumer credit-related activities (which relate to the option for customers to pay in instalments) are now regulated by the FCA, following the transfer of responsibility for the regulation of consumer credit from the Office of Fair Trading ("**OFT**") to the FCA on 1 April 2014.

From 1 April 2014, an "interim permission" regime under FSMA is in operation for a limited period, allowing consumer credit firms which held a valid CCA licence from the OFT as of 31 March 2014 to carry on the regulated credit activities which were covered by their CCA licence without seeking full FCA authorisation (for firms which are not otherwise authorised under FSMA) or variation of permissions (for firms which are already authorised under FSMA) immediately.

Such firms will nevertheless have to apply for full FCA authorisation or variation of permissions in due course, on a timetable set by the FCA (with a longstop date of 1 April 2016). A failure to do so within the allocated time period will result in the interim permission ceasing to have effect.

Certain authorised Group entities hold interim variations of permissions in relation to certain consumer credit-related regulated activities and so must obtain full variations of permissions to continue to carry on these activities in the long term. While the Group does not expect there to be any difficulty in these entities successfully being granted their full variations of permissions at the appropriate time, there remains a risk that such permissions may not be granted, in which case these entities would no longer be able to carry on consumer credit-related regulated activities.

Further, as a result of the change in regime, the requirements applicable to the consumer credit industry have increased to become more comparable with the broader financial services industry. This reflects the new FCA-headed regulatory framework and is consistent with the FCA's supervisory and enforcement powers being substantially greater than the OFT's previous powers. Consequently, the Group's consumer credit-related activities are now subject to a more stringent regulatory regime and the relevant entities within the Group expect to have a more intensive supervisory relationship with the FCA as regards their consumer credit-related activities than was the case under the previous OFT regime. While many of the conduct of business requirements remain the same under the new regime, any future changes to these requirements could impose a greater regulatory burden on firms and so could adversely affect the Group's ability to continue its consumer credit-related activities.

Failure by the Group to comply with applicable law and/or regulation could lead to investigation of the Group by, and/or onerous requests for information from, Relevant Regulators and national and supranational governmental bodies (including, for example, the EU supervisory bodies), disciplinary action, prosecution, the imposition of fines, or the variation or revocation of the licences, permissions or authorisations the Group requires to conduct the Business. This could have a material adverse effect on the Business and the Group's results of operations or financial condition and could also harm its reputation.

Laws, regulations, policies, accounting rules and practices currently affecting the Group may change at any time, including as a result of investigation and regulatory activity by one or more governmental, supervisory and/or enforcement authorities, in ways which may have a material adverse effect on the Business and the Group's results of operations or financial condition and could lead to litigation.

An example of UK regulatory requirements being subject to change is the interpretation of the current FCA principle of "treating customers fairly" ("**TCF**") which has evolved in recent years to increase requirements upon all regulated firms. In respect of general insurance, the FCA's particular TCF focus is on product design, clarity of disclosure, claims handling and systems and controls. The FCA has noted that in particularly competitive areas of insurance, such as motor and household insurance, given the focus on price, insurers must be especially vigilant to ensure that consumers are aware of the extent of policy coverage and ensure that areas such as claims-handling procedures are highlighted prior to any purchase of insurance. Any further developments to the TCF principle may result in increased cases of non-compliance and subsequent regulatory compliance risk for the Group.

Examples of other recent changes affecting the Group include the civil justice reforms implemented through the Legal Aid, Sentencing and Punishment of Offenders Act 2012, which came into force in 2013 (see section 1.8 of these Risk Factors), and the restriction on using gender-related factors in pricing which came into force at the end of 2012 following a European Court of Justice ruling in relation to the Gender Directive (Directive 2004/113/EC). While the Group is not aware of any further planned changes in either of these areas, there may be additional intervention in these areas in future which could adversely affect the Group's business, operations and financial performance.

Following the FCA's final publication of its findings from its market study into GI add-on products (as detailed in "*Regulatory Overview*", below), if the Group is required to alter any current business practices, this could increase compliance costs for the Group which may include additional management time to implement changes necessary to comply with any revised regulation of GI add-on products. In addition, any determination that the Group does not comply with the applicable regulation could result in the FCA imposing sanctions on the Group which has the potential to create negative publicity for the Group as a whole which, in turn, could have an adverse effect on the Group's business, operations and financial performance.

Further, the effects of the revised Insurance Mediation Directive ("**IMD2**") (as detailed in "*Regulatory Overview*", below) could involve an increase in the regulatory compliance costs of the Group, adverse effects to the distribution of insurance products by the Group and adverse impacts on the operations of the Group as a result.

Regulatory issues and disputes may arise from time to time from the way in which the insurance industry has sold or administered an insurance policy or the way in which they have treated policyholders or customers, either individually or collectively. In the UK, such disputes are typically resolved by the Financial Ombudsman Service ("**FOS**") or, failing this, through litigation. However, the FCA may intervene directly where larger groups or matters of public policy are involved. There have been several industry-wide issues in recent years where the FCA (and, previously, the FSA) has intervened directly, such as the widespread mis-selling of payment protection insurance. The FCA has also carried out industry wide thematic reviews of specific products or processes with which it has concerns.

In addition to any changes impacting the Business, the Group may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to applicable insurance laws or regulation. This may also require management to divert significant time and attention to the implementation of such changes and/or transitional arrangements, potentially to the detriment of the day-to-day running of the Business. The Group cannot predict the timing, form or extent of any future legal, regulatory, accounting or tax initiatives or prospective or retrospective legislative or court decisions impacting the Business or the Group as a whole. Further, inconsistent application of directives (including Solvency II - as described further in section 1.10 below) by regulators in different Member States may place the Group's business at a competitive disadvantage to other European financial services groups with competing businesses in the UK. This could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.7 The Group is required to comply with capital adequacy requirements, failure to do so could have a material adverse effect on the Business

The Group is required to maintain a minimum level of regulatory capital in excess of the value of its insurance-related and other liabilities to comply with certain regulatory requirements. These requirements as regards solvency are set out in more detail in "*Regulatory Overview*" below. Currently, the Group must assess its capital on a Pillar 1 (regulatory capital) and Pillar 2 (individual capital assessment) basis and must hold sufficient qualifying regulatory capital to satisfy both tests. If the Group is unable to meet

its Regulatory Capital Requirements, the PRA may intervene and require the Group to take certain steps to restore its regulatory capital to acceptable levels, for example, by requiring the Group to cease to write or reduce writing new business. The Group might also need to re-allocate capital across its business, increase prices, increase reinsurance coverage or adopt a new investment strategy, including by making significant changes to its investment portfolio.

While the Group is currently able to meet its Regulatory Capital Requirements, changes in legislation, regulation, regulatory requirements or market conditions may result in the Issuer being unable to do so in the future. This could lead to the PRA limiting or revoking the permissions which the Group requires to carry out insurance business, which could materially impact the Group's results of operations or its financial position.

1.8 The full effects of the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) are not yet clear and there is a risk that the reforms will fail to reduce the Group's exposure to loss relating to personal injury in the manner anticipated

The Legal Aid, Sentencing and Punishment of Offenders Act 2012 ("**LASPO**") took effect in April 2013 and came into force in two main stages: first, certain civil justice reforms came into force in the UK from April 2013, including: (i) a prohibition on the payment and receipt of referral fees in personal injury cases; (ii) a reduction in the fixed costs permitted to be recovered by solicitors for conducting claims under the Ministry of Justice's pre-action protocol for low-value personal injury claims in road traffic accidents ("**Pre-Action Protocol**") (£1,200 to £500); (iii) the withdrawal of the ability for successful claimants to recover after-the-event insurance premiums and success fees under conditional fee arrangements; and (iv) an increase of 10 per cent. to the level of general damages; and secondly, further reforms were implemented in July 2013, including: (i) stage 1 fixed costs permitted to be recovered by solicitors for conducting claims under the Ministry of Justice's Pre-Action Protocol, are now payable after receiving the stage 2 settlement pack; and (ii) the extension of the Ministry of Justice Claims Portal limit from £10,000 to £25,000 for road traffic accidents occurring after 31 July 2013.

LASPO has put greater market controls in place however, while experience to date was encouraging after the implementation of the LASPO reforms, there is market evidence from the Ministry of Justice Claims Portal that suggests claims frequency in small bodily injury claims may be increasing. LASPO permits the use by plaintiffs' lawyers of contingency fee arrangements, which in some other jurisdictions are viewed as increasing the incidence of personal injury claims. Other recent reforms to costs in the English civil justice system as proposed by Lord Justice Jackson, including the 10 per cent. increase in general damages, have the propensity to increase as well as reduce the Group's income and costs. This could have a material adverse effect on the Business and the Group's results of operations or financial condition.

The full effect of these reforms is uncertain and there is a risk that the reforms will fail to reduce the Group's exposure to loss relating to personal injury in the manner anticipated and that the Group will also lose the income streams previously afforded by referral arrangements and legal service fee models.

1.9 The Group may require additional capital in the longer term, depending on factors including proposed regulatory changes, underwriting performance and fluctuations in fixed income and equity markets. Such additional capital may not be available or may only be available on unfavourable terms

The Group is in the process of implementing a Solvency II programme and expects to meet the requirements of Solvency II, as currently articulated in the legislation and draft regulatory technical standards, by the expected Solvency II implementation date (scheduled for 1 January 2016). However, in the longer term, the Group's capital requirements depend on many factors, including any unanticipated regulatory changes to capital requirements, the Group's ability to write new business successfully and its ability to establish premium rates and reserves at levels sufficient to cover losses.

Insurers in the UK are required to maintain a minimum level of assets in excess of their liabilities. These regulatory requirements apply to individual insurance subsidiaries on a stand-alone basis and in respect of the Group as a whole. Fluctuations in fixed income and equity markets could, directly or indirectly, affect the levels of regulatory capital held by the Group. An inability to meet Regulatory Capital Requirements in the longer term may lead to intervention by the PRA which, in the interests of customer security, could be expected to require the Group to take steps to restore regulatory capital to acceptable levels, potentially by requiring the Group to raise additional funds through financings or to reduce or cease to write new business.

Any equity or debt financing required in the longer term to meet any increased capital requirements, if available at all, may be on terms that are not favourable to the Group. Disruptions, uncertainty or volatility in the debt capital markets may also limit the Group's access to capital required to operate its business. Such market conditions may limit the Group's ability to satisfy statutory capital requirements, generate premiums and investment income to meet liquidity needs, and access the capital necessary to grow the business. As such, the Group may be forced to delay raising debt capital or bear an unattractive cost of capital which could decrease profitability and significantly reduce financial flexibility. If the Group cannot, in the longer term, obtain adequate capital on favourable terms or at all, the Business or the Group's financial condition or operating results could be adversely affected. As described in section 1.10 of these Risk Factors, implementation of Solvency II may also have an adverse impact on the Group's capital requirements.

1.10 The Solvency II Directive, which will impose new risk-based capital requirements on European-domiciled insurance companies, may, when implemented, require an increase in the Group's capital

The Solvency II Directive, which will impose new risk-based capital requirements on European-domiciled insurance companies, was formally approved by the European Parliament in 2009 and is due to be implemented in full on 1 January 2016. The Solvency II Directive will significantly change the way that capital requirements for EU-based insurance companies is assessed by requiring the utilisation of a more stringent risk-based approach.

The Group is focused on developing its business processes to reflect and further embed the Solvency II requirements as currently articulated in the legislation and draft

regulatory technical standards. These include evolution of the governance and framework for risk management and development of the internal and external reporting requirements. The Group is also enhancing its Internal Economic Capital model to support its business and strategic decisions, including assessment of regulatory and business capital requirements. In addition, the Group will continue to calculate its likely capital requirements using the Solvency II standard formula approach.

It is possible that the PRA could seek to impose increased capital requirements in the interim period before Solvency II is implemented in its final form – this has the potential to increase costs for the Group during such period and to take up management time as a result of the uncertainty surrounding any new requirements.

As currently provided for in Solvency II, insurers will be permitted to calculate Solvency Capital Requirements by using a detailed standard formula approach or by developing their own Internal Model, which must be approved by the PRA. The Group, along with almost 90 per cent. of the UK insurance market, is seeking to apply the standard formula approach. The Group is continuing to develop its Internal Model to support its business and risk decision making processes.

Although the underlying intention and purpose behind the incoming regime are generally understood, there is continued uncertainty regarding the impact of Solvency II on insurance companies. Implementing measures, which are currently being developed, are expected to clarify the uncertainty surrounding a number of issues on a wide range of topics. On 10 October 2014, the European Commission published a final draft of the Level 2 delegated acts, in the form of an EU Regulation. The Level 2 delegated acts will enter into force once approved by the European Parliament and the Council, following scrutiny for a maximum period of six months. It has been reported that the Council has already decided not to object to the legislation. Further, the European Insurance and Occupational Pensions Authority ("**EIOPA**") has published several sets of draft implementing technical standards and draft Level 3 guidelines for consultation, and has finalised the majority of its first set of guidelines. EIOPA intends to consult on and finalise the remaining implementing technical standards and guidelines required under Solvency II throughout the remainder of 2014 and the first half of 2015. The PRA has published various consultation papers regarding the implementation of Solvency II in the UK and has also published a number of supervisory statements which set out the PRA's expectations of firms in relation to certain aspects of the regime. For further details of Solvency II, please see "*Regulatory Overview*" below.

The implementation of Solvency II may lead to increases in the Group's capital requirements. In addition, following any implementation date of Solvency II, regulators may continue to issue guidance and other interpretations of applicable requirements, which could require further adjustments by the Group in the future. A failure by the Group to implement the measures required by Solvency II in a timely manner could also lead to regulatory action and have a material adverse effect on the Business and the Group's results of operations and financial condition. . The Group's current Solvency II programme remains on track for the implementation date of 1 January 2016.

Given the broad application of Solvency II across the EU, there is the further risk that the directive will be applied inconsistently by different Member State regulators which

could place the Group at a competitive disadvantage if the rules are implemented less onerously in EU countries in which the Group does not operate.

1.11 The conclusion of the CMA investigation into certain aspects of the UK private motor insurance market following a reference from the OFT has resulted in reforms to the market which will require the Group to amend certain practices which could prove a disruptive and costly exercise

On 28 September 2012, the OFT published its final decision to refer the UK market for the supply or acquisition of private motor insurance and related goods or services to the Competition Commission (the "**CC**") for a market investigation. On 24 September 2014, the CMA published its final report concluding its investigation into the UK private motor insurance market. The CMA is the government body which now holds the responsibilities of the CC (following its closure on 1 April 2014).

The CMA identified an adverse effect on competition in the UK motor insurance market through: (i) consumers being forced to assume unnecessary costs incurred during the claims process following an accident; (ii) increased difficulty for consumers to identify the best-value offers and the potential to purchase add-on products at inflated prices; and (iii) the existence of conditions in some contracts between insurers and price comparison websites which limit price competition, reducing innovation and restricting entry. In addition, the CMA noted that price comparison websites have a degree of market power by virtue of the number of consumers who do not shop around between the websites, with the subsequent effect being that consumers pay higher car insurance premiums.

The CMA has chosen to adopt the following measures to address the issues identified in its report: (i) a requirement that insurers and price comparison websites provide better information to consumers about the costs and benefits of protected no claims bonus; (ii) a ban on price parity agreements between price comparison websites and insurers, and any equivalent behaviour, which stop insurers from making their products available to consumers through other price comparison websites more cheaply; and (iii) a recommendation that the FCA reviews how insurers inform consumers about other private car insurance-related add-on products. A price cap proposal to address the excessive costs in the claims handling process which result in consumers assuming unnecessary costs was not adopted in the final report, as the CMA concluded that the measure would be disproportionate to the scale of the problem.

The CMA is required to implement the remedies within six months of issuing the final report and there will be a formal consultation process on the draft order implementing the remedies in early 2015. In the final report, the CMA proposed the following timing for price comparison websites and insurers to effect the measures following implementation of the order: (i) one calendar month in respect of the ban on price parity agreements; and (ii) six months in respect of the requirements to provide better information about protected no claims bonus.

These measures will require the Group, and other insurers, to adopt different practices and follow new procedures to alter current market practice in respect of their UK car insurance and price comparison businesses, which could prove a disruptive and costly

exercise and may have an adverse effect on the Group's business and its investment in Gocompare.com Holdings Limited ("**Gocompare**").

Alongside the CMA, the FCA has been tasked with promoting effective competition in the interests of consumers. The FCA will have a statutory basis for the conduct of market studies and rights to refer markets to the CMA under the Enterprise Act 2002, when the concurrent powers come into effect, which is anticipated to be in April 2015.

The impact of these regulatory reviews on the Group and its investments is unclear and they could have an adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.12 Adverse litigation outcomes, an increase in the use of periodical payments orders, and/or a change in the Ogden Tables used to determine the discount rate for litigation settlements could result in higher costs of claims for the Group

The Group, in common with the insurance industry in general, has been involved in, and expects to continue to be involved in, legal proceedings that may be costly irrespective of the outcome and that could divert management's attention from running the Business. In the ordinary course of the Group's insurance activities, it is routinely involved in legal, mediation and arbitration proceedings with respect to liabilities which are the subject of policy claims.

To the extent that legal decisions increase court awards, the impact of which may be applied prospectively or retrospectively, the provisions the Group makes for claims may prove insufficient to cover actual claims, claim adjustment expenses or future policy benefits. As a result, the Group may have to increase its claims provisions and incur a charge to its earnings. This could have a material adverse effect on the Group's results of operations and/or financial condition.

In relation to private motor insurance, the cost of claims could rise significantly above historical or expected levels to the extent that claims for personal injuries are determined or settled with periodical payment orders ("**PPOs**"). PPOs are effectively annuity payment orders that can be established by the courts to settle large personal injury and care claims (as an alternative to lump sum payments) resulting from motor accidents. They add an increased risk (i.e. mortality) which can increase the uncertainty of the total cost and, as a result of the indexation allowance built into reinsurance treaties being generally lower than the indexation allowance built by the courts into PPO claim settlements (generally based on the ASHE index), reinsurance may not cover the full costs of such claims.

The recent increase in the market in the use of PPOs to settle personal injury claims makes the estimation of reserves increasingly complex and uncertain. Since PPOs typically involve periodic payments during the entire lifetime of an injured person, an increased range of assumptions is required to estimate risk exposure. It may be difficult to set accurate reserves due to uncertainties over life expectancy, inflation, investment income, payment patterns or other factors. Though the Group's exposure to PPOs to date has been limited, such claims tend to be large and are expected to pay out over a long period, which increases the uncertainties discussed above.

The Group bears the risk that the cost of claims may ultimately be higher than projected. To compensate for this uncertainty, the Group may have to divert additional funds towards loss provisioning. Further, if the Group has reinsured such exposure, the Group may bear: (i) a credit risk in relation to the reinsurer; and (ii) the risk that the Group may need to account for excess amounts as a result of the rate of inflation during the term of the PPOs being greater than any cap on indexation contained in any such reinsurance policy's terms.

If personal injury claims are determined or settled with lump sum payments, such payments are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the UK government and that is applied when calculating the present value of loss of earnings for claims settlement purposes. This discount rate is currently under review, and the timing of the conclusion of this review is unclear and it is still uncertain whether or by how much the rate will change. A change in the discount rate used in the Ogden Tables, whether as a result of the UK government's current review or any future review, could affect all relevant claims settled after that date, regardless of whether the insurance to which the claim relates was priced on that basis or not (or occurred after that date or not). In particular, a reduction in the Ogden discount rates will increase lump sum payments to UK personal injury claimants. This may have a material adverse effect on the Business and the Group's results of operations or financial condition.

1.13 The Group may be exposed to fines, penalties, reputational damage and the potential loss or revocation of permissions or authorisations if it fails to identify and eliminate potential mis-selling practices

If the Group, or any third party outsourced services provider used by the Group, fails to identify and eliminate potential mis-selling practices, or to effectively manage and reduce the risk of mis-selling, the Group may be exposed to financial and reputational risk.

If disputes arise in relation to the way in which an insurance policy or product was sold or administered by the Group or in relation to the fair treatment of customers by the Group they may, if not successfully resolved, be dealt with by the FOS and/or the FCA.

The Group may be subject to investigations conducted or commissioned by the FCA, which could result in regulatory fines or penalties and the Group may be required to improve its systems and controls and/or its business policies and practices, which could include making changes to sales processes, withdrawing products, or providing restitution to affected customers. The FCA has powers that could be used to require the Group to make these changes. In addition, the Group's brands and reputation may be affected if such customers seek redress publicly, either through the courts or otherwise or if the FCA decides to publicly censure any member of the Group. The Group may suffer such brand and reputational damage even in circumstances where allegations of mis-selling by customers and/or consumer groups are not ultimately upheld. The FCA (or the PRA, as appropriate) could also vary or withdraw the Group's permissions or authorisations, or vary or withdraw the permissions held by individual employees of the Group. Any of these could have a material adverse effect on the Business and the Group's results of operations and/or financial condition.

1.14 The Group may suffer from increased charges, financial loss, penalties and reputational damage if tax rates, tax laws or HMRC's published practice change, or if the Group fails to manage tax risks adequately

Changes in tax rates, tax laws or HMRC's published practice, or changes in or interpretation of or misinterpretation of the law or HMRC's published practice, or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may have an adverse effect on the Group's financial condition. In particular, any changes to, withdrawal of or change in the application of, the current UK VAT exemption that applies to insurance activities may affect the Group's outsourcing costs. The Group cannot predict the impact of future changes in tax rates, tax laws or HMRC's published practice on its products or the Business. Such changes and/or the introduction of new tax legislation could have a material adverse effect on the Business and the Group's results of operations and/or financial condition and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.15 The Group's underwriting performance may be affected if it fails to make an accurate assessment of the risks it assumes, including any failure to collect and analyse data, to develop, test and apply accurate rating formulae, to promptly recognise and monitor claim trends, to identify and prevent fraud and/or to project severity and frequency of claims with accuracy

The Group's results of operations and financial condition depend 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 cover losses and underwriting expenses and to earn profit on its own underwriting. If the Group fails to assess accurately the risks that it assumes, it may fail to establish adequate premium rates, which could result in the Group making losses from its underwriting activities. Such losses could have a material adverse effect on the Business or the Group's results of operations and/or financial condition. Section 1.12 of these Risk Factors describes certain other risks that could affect the accuracy of risk pricing.

In order to price its products accurately, the Group must collect and properly analyse a substantial volume of data; develop, test and apply appropriate rating formulae; promptly recognise and closely monitor trends; identify and prevent fraud; and project both severity and frequency of losses with reasonable accuracy. The Group's ability to do these successfully and, as a result, price its products accurately, is subject to a number of risks and uncertainties, including:

- the availability of and ability to use sufficiently reliable data;
- appropriate analysis of available data;
- uncertainties inherent in estimates and assumptions generally;
- the selection and application of appropriate rating formulae or other pricing methodologies;
- unanticipated or inconsistent court decisions, legislation or regulatory action;

- changes in the Group's claims settlement practices, which can influence the amount paid on claims;

- changes in frequency or severity of claims; and

- changes over time in consumer behaviour and habits.

Accurate pricing of motor insurance is subject to a number of specific uncertainties, including:

- changing driving and other consumer patterns, which could adversely affect both frequency and severity of claims;

- unanticipated increases in the number and severity of bodily injury claims;

- increases in cost of provision of replacement cars due to use of credit hire arrangements; and

- unanticipated inflation in motor repair costs, motor parts prices and used motor prices, adversely affecting motor physical damage claim severity.

Accurate pricing of home insurance is subject to a number of specific uncertainties, including:

- increases in the costs of repairs and building work;

- inflation in home contents goods; and

- unanticipated weather patterns and climatic conditions, as well as catastrophes.

Such risks may result in the Group's pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions or methodologies, and may cause the Group to estimate incorrectly future increases in the frequency and severity of claims. As a result, the Group could underprice risks, which could negatively affect its Loss Ratio, or the Group could overprice risks, which could reduce its business volume and competitiveness.

Underwriting is a matter of judgement involving important assumptions about matters that are inherently unpredictable and beyond the Group's control and for which historical experience and probability analysis may not provide sufficient guidance. Notwithstanding the risk mitigation and underwriting controls employed, one or more catastrophic or other loss events could result in claims that substantially exceed the Group's expectations, which may have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.16 The underwriting and/or management of insurance risks is subject to a number of uncertainties and variable factors, and any changes in these factors or any failures in the Group's estimation techniques, assumptions or loss-mitigation

actions may result in the Group's claims reserves not adequately covering actual claims

The Group's claims reserves may prove to be inadequate to cover the actual claims made.

The underwriting and/or management of insurance risks is, by its nature, subject to uncertainty and there can be no assurances that the Group's estimation techniques, assumptions or loss-mitigation actions will result in provisions being sufficient. Among other issues, the uncertainties under insurance contracts include:

- uncertainty whether an event has occurred which would give rise to a customer suffering an insured loss;
- uncertainty about the extent of policy coverage and limits applicable;
- uncertainty about the amount of insured loss suffered by a customer as a result of the event occurring, in particular given the relatively short nature of the Group's large loss claims history (with the Group having only carried out underwriting for 14 years);
- uncertainty over the timing of a settlement to a customer for a loss suffered; and
- uncertainty over the level of claims expenses to be incurred.

In addition to the inherent uncertainty of having to make provision for unreported claims, there is also uncertainty regarding the eventual outcome of the claims that have been reported as at the end of the accounting period, but remain unsettled. This includes claims that may have occurred but have not yet been reported to the Group (either in full or at all) and those that are not yet apparent to the customer (either in full or at all). Claims provisions do not therefore represent an exact calculation of liability, but rather are estimates of the expected cost of the ultimate settlement of claims. As a consequence of these uncertainties, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from initial estimates.

As a consequence of the uncertainty inherent in estimating and providing for insurance liabilities, sophisticated estimation techniques need to be applied to determine the appropriate provisions. The estimation of insurance liabilities involves the use of judgements and assumptions that are specific to the relevant insurance risks and the particular type of insurance risk covered. These estimates are based on actuarial and statistical projections and assumptions, including the time required to learn of and settle claims, of facts and circumstances known at a given time, as well as estimates of trends in claims severity. The estimates are also based on other variable factors, including changes in the legal and regulatory environment, results of litigation, changes in medical costs, the cost of repairs and replacement and general economic conditions. The Group's earnings depend significantly upon the extent to which the Group's actual claims experience is consistent with the projections and the assumptions it uses in setting claims reserves and subsequent premium levels. Changes in the trends or other variable factors, such as inflation and interest rates, used to produce these estimates could result in claims in excess of relevant claims provisions. Consequently, actual

claims and related expenses paid may differ from estimates reflected in the claims provisions in the Group's financial statements.

To the extent claims provisions are insufficient to cover actual losses or loss adjustment expenses, the Group may have to add to these claims provisions and may incur a charge to the Group's earnings. Conversely, if the Group's premiums and claims provisions are too high as a result of an over-estimation of risk, the Group may become uncompetitive, leading to a loss of customers and market share. This could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.17 The Group and its operations are based in the UK and are therefore vulnerable to any deterioration in UK economic, market and fiscal conditions (which may affect sales volumes and lead to increased fraud) or political developments

The Group is based in the UK and only sells its products to customers in the UK. The Group is therefore exposed to the economic, market, and fiscal conditions in the UK and to changes in any of these conditions.

Any deterioration in economic conditions in the UK (including deterioration caused by uncertainties arising in relation to the euro and the Eurozone) could result in a downturn in new business and sales volumes of the Group's products and a decrease of its investment return. Any such development could have a material adverse effect on the Business and the Group's results of operations and financial condition. An economic downturn could also result in increased incidence of internal and/or external fraud.

The Business may be affected by future political developments. For example, the Group may be exposed to uncertainty surrounding the outcome of the UK's general election in 2015. Any future effort by the UK government to renegotiate EU treaties (or even a potential withdrawal of the UK from the EU) may also give rise to significant uncertainty. These, and other political events, and the associated uncertainties, could have a material adverse impact on the market in which the Group operates.

On 18 September 2014, a referendum was held on the issue of Scottish independence from the UK. The result of the referendum was against Scottish independence. However, increased devolution of powers to the Scottish Government was promised by the UK government. The impact of this result in the economic climate in Scotland and political and policy developments is uncertain and may affect the Group's business operations in Scotland.

1.18 Factors outside the Group's control, including economic conditions, cyclical and social trends and the general business and regulatory environment, may affect revenues from Additional Services (in particular in relation to Additional Insurance Products)

The Directors consider revenues from Additional Services, and in particular revenues from the sale of Additional Insurance Products, to be an important element of the Business because of the diversity they offer to the Group's core underwriting revenue

streams and because of their higher returns on capital employed and potential for further growth.

There are risks that the revenues from Additional Services may not develop as expected. Economic conditions, cyclical trends and the general business and regulatory environment could also have an impact on the growth of Additional Services. Customers may be less likely to acquire optional Additional Insurance Products in an economic downturn.

In response to the FCA review of GI add-on products (detailed in "*Regulatory Overview*" below) the Group has established procedures and controls designed to ensure that Additional Insurance Products are transparent, offer genuine protection to customers and are sold in compliance with applicable laws and regulations, including regulatory codes of conduct. However, there is no assurance that such procedures and controls will operate effectively or that the FCA will find them to be adequate. If such procedures and controls fail to operate as intended, or if the FCA finds them to be inadequate, the Group may be required to redesign or withdraw one or more of its Additional Insurance Products, to provide customer redress, and to review and improve its procedures and controls and ultimately could be subject to a variation or revocation of its permissions. The Group may also be subject to public censure or other disciplinary action by the FCA. Any of these outcomes may have a material adverse effect on the Group's reputation and results of operations.

Additionally, there is a risk that changes could be made under the new FCA consumer credit regime which could increase the regulatory burden for providers of consumer credit, which could in turn adversely affect the Group's ability to offer consumer credit-related Additional Services, such as an option for customers to pay in instalments.

Other factors beyond the Group's control that may affect the development of Additional Services include actions taken by competitors and market and consumer reaction to new products and/or services.

1.19 The Group's investment returns are exposed to risks including interest rate, equity price and credit risks, as well as the risk of a general economic downturn

Investment returns, both positive and negative, affect the Group's overall profitability. In the first half of 2014, the Group had investment income of £7.6 million (2013 1H: £7.5 million). The Group is exposed to market risk from open positions in interest rate and equity products, all of which are exposed to general and specific market movements. Certain investments are less liquid than others and the Group's ability to manage its portfolio may be affected by its ability to exit certain positions in a timely basis. The primary risks that the Group faces due to the nature of its investments and liabilities are interest rate risk (arising primarily from investments in fixed interest securities) and equity price risk (as a result of the Group's holdings in equity investments, classified as financial assets at fair value through profit or loss). The Group also has some exposure to credit risk in relation to reinsurers, policyholders, investment counterparties, and debt securities. Adverse movements in interest rates or the equity markets and contractual non-performance in respect of, or changes in the creditworthiness of, invested assets could have a material adverse effect on the Business or the Group's results of operations and/or financial condition.

As at 30 June 2014, 94 per cent. of the Group's assets were invested in fixed income securities and cash instruments, with only 6 per cent. invested in equities. Equities are generally subject to greater risks and more volatility than fixed income securities and cash instruments. General economic conditions, stock market conditions and many other factors beyond the Group's control can adversely affect the equity markets.

Fluctuations in interest rates affect returns on and the market values of the Group's fixed income investments. For an increase or decrease of one percentage point in interest yields, the Group's profit before tax for the first half of 2014 would have increased or decreased by £3.5 million. Generally, investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are redeemed prior to their maturity date, mature or are sold and the proceeds reinvested at lower rates. During periods of rising interest rates, prices of fixed income securities tend to fall and realised gains upon their sale are reduced. The Group's investment income has been adversely affected by the low interest rates in the UK over recent years, and the Directors believe that this low interest rate environment could persist for some time to come.

The Group's investment returns are also susceptible to changes in general economic conditions, including changes that impact the general creditworthiness of the issuers of debt securities and equity securities held in the Group's portfolios. The Group's investments could be affected by uncertainties arising in relation to the euro and the Eurozone and the possibility of one or more countries exiting the Eurozone. Investment returns are consequently volatile. The value of the Group's fixed income securities may be affected by changes in the credit rating of the issuer of such securities. When the credit rating of the issuer of a debt security falls, the value of that debt security may also decline. In addition, changes in the credit rating of an issuer may affect the yield on such debt securities. If the credit rating of the issuer falls to a level that would prevent the Group from holding securities issued by that issuer, pursuant to regulatory guidelines or internal investment policies, the resulting disposal may lead to a significant loss on the Group's investment. Furthermore, it is possible that an issuer may default on such securities, which could lead to a total loss by the Group on its investment.

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

1.20 The Group's brands, reputation and goodwill may be affected by factors including litigation, employee misconduct, operational failures, regulatory investigations, negative publicity, poor performance and changes to its commercial relationships with price comparison websites

The Group's brands (*esure* and *Sheilas' Wheels*) and reputation underpin its customer and market perception. The Group operates in an industry where integrity, trust and confidence are paramount and is consequently exposed to risks including: products not performing as expected, litigation, failure or default by counterparties or recommended suppliers, employee misconduct, operational failures, adverse regulatory investigations, negative publicity or press speculation (including widespread adverse social media

commentary), disclosure of confidential information and inadequate services, among other factors. Such eventualities could impact the Group's brands or reputation causing loss of consumer confidence and customers which could in turn have a material adverse effect on the Group's results of operations and/or financial condition. In particular, as price comparison sites are a major distribution channel for the Group, any failure of such price comparison sites to perform as expected may also affect the Group's reputation and business and any adverse change in arrangements with such price comparison sites may affect the Group's brand penetration and branding strategy.

1.21 The Group is dependent on its Chairman, Executive Directors and senior management team as well as certain other key personnel and may face operational challenges as well as challenges in recruiting and retaining suitable personnel if such persons leave the Business

The Group's success will depend on its ability to attract and retain executives and personnel. In the insurance industry, there is a shortage of executives and the Group may face challenges in recruiting and retaining suitable personnel. The Group's management team have made a significant contribution to the growth and success of the business and are expected to continue to do so. Many members of the management team have been with the Group for many years.

Peter Wood, who founded the Group and who has over 35 years' experience in the UK personal lines insurance industry, is an important part of this team. Stuart Vann, the Group's Chief Executive Officer, who has 18 years' experience in the insurance sector, also played an integral part in the development of the Group, particularly in leading the Group's response to the personal injury claims phenomenon and driving the Group's wider diversification strategy. Darren Ogden, the Group's Chief Finance Officer, is a qualified accountant with over 20 years' experience of working within the insurance industry. He was appointed to the Board as Chief Finance Officer in November 2012 and is another important member of the management team.

The loss of Peter Wood, Stuart Vann, Darren Ogden or a number of other members of the senior management team, or any delay in replacing any of them, may have a material adverse effect on the Business.

As the Group grows, it will need to recruit and retain additional qualified personnel, and failure to do so could affect the Business or result in a reduction in the Group's profitability. Further, if the PRA or the FCA (as appropriate) considers that certain executives or members of management do not have the appropriate qualifications and/or experience or are not fit and proper to perform their functions, the appropriate regulator may not approve, or may withdraw its approval of, the appointment of such individuals. The PRA and the FCA are consulting on changes to the approved persons regime at present, and the proposed new regime would be likely to result in increased scrutiny of individuals performing key roles in insurance companies, both at the approval stage and subsequently. In addition, if the Group were to fail to recruit or retain significant numbers of claims and IT employees, the ability of the Group's claims department and IT infrastructure to handle an increasing workload could be adversely affected, potentially affecting growth in these areas. In addition, the Group may suffer a decrease in the quality of claims handling, which may have a material adverse effect on the Group's results of operations and/or financial condition.

1.22 The Group is exposed to changes in the behaviour of its customers and changes in the markets in which it operates

The Group is exposed to changes in the behaviour of its customers and the markets in which it sells its insurance products and its success is dependent to a large extent on management's ability to anticipate, react to and take advantage of such changes. For example, changes in lifestyle, technology (such as home automation, telematics and driverless cars), regulation, or taxation could significantly alter customers' actual or perceived need for insurance and the types of insurance sought.

Changes in technology could also give rise to new types of entrants into the insurance and/or insurance sales markets, for example, pay-as-you-go motor insurance, or the development of new distribution channels, such as through social media, may require further adaptation of the Group's business and operations. Such changes could result in reduced demand for the Group's products and require the Group to expend significant energy, resources and expenditure to change its product offering, build new risk and pricing models, modify and renew its operating and IT systems and/or retrain or hire new people. Changes to customer behaviour could also result in higher customer turnover. This could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.23 The Group may not be able to manage its underwriting risk successfully through reinsurance arrangements if risk appetites change and reinsurers withdraw their products or increase prices, or if reinsurers fail to meet their payment obligations

An important element of the Group's risk management strategy is to purchase reinsurance, thereby transferring exposure to certain risks to others through reinsurance arrangements. The Group currently uses the reinsurance markets primarily to limit its risk, to support its growth and to manage its capital more efficiently. The Group has historically relied on excess of loss reinsurance agreements to maintain its exposure to loss at or below a level that is within the capacity of its capital resources.

The Group is exposed to the cyclical nature of the reinsurance industry. This may adversely affect the pricing and availability of reinsurance, as well as its terms and conditions. Changes in risk appetite among reinsurers may result in changes in price or willingness to reinsure certain risks, which could have a material adverse effect on the Group's results of operations or financial condition. In private motor reinsurance, the recent increase in PPOs to settle bodily injury claims has already led to increases in the price of reinsurance. Further changes in the price of motor reinsurance or willingness to provide motor reinsurance may develop if PPOs and the liabilities attached to such orders continue to increase. Increasingly, reinsurers are seeking to mitigate the risks associated with PPOs by introducing policy provisions which force the insurer and reinsurer into a commutation of the claim on pre-agreed terms ("compulsory capitalisation clauses"). The use of compulsory capitalisation clauses can have a negative impact on the amount which the insurer is able recover from the reinsurer. Such terms may become market standard in the reinsurance industry.

If reinsurers do not offer to renew their products and services, in whole or in part, for any reason, there is a risk that the Group may be unable to procure replacement cover for

any reinsurance agreements terminated at rates equivalent to those of the terminated cover and that the Group may be exposed to un-reinsured losses during any interim period between termination of the existing agreements and the start of any replacement cover.

While reinsurance makes the assuming reinsurer liable to the Group to the extent of the risk ceded, it does not discharge the Group from its primary obligation to pay under an insurance policy for losses incurred. The Group is therefore subject to credit risk with respect to its current and future reinsurers, as the ceding of risk to reinsurers does not relieve the Group of liability to its customers regarding the portion of the risk that has been reinsured, if the reinsurers fail to meet their payment obligations for any reason. The insolvency of any reinsurers or their inability or refusal to pay claims under the terms of any of their agreements with the Group could therefore have a material adverse effect on the Group. Collectability of reinsurance is largely a function of the solvency of reinsurers. While the Group carefully reviews the financial condition of the reinsurers it selects, a reinsurer’s insolvency or inability or unwillingness to make payments under the terms of a reinsurance arrangement could have a material adverse effect on the Group’s results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.24 Growing sophistication in fraud techniques and/or any failure by the Group to identify and prevent fraud could affect the profits of the Group if, as a result of such fraud, claims incidence and average payouts increase or policy sales decrease

The Group is exposed to actual and attempted financial crime activity. Insurance fraud may rise during a recession and is an important consideration for the Group’s industry. The Group is at risk both from customers who misrepresent or fail to provide full disclosure in relation to the risk against which they are seeking cover before such cover is purchased, and from customers who fabricate claims and/or inflate the value of their claims.

The Group is also at risk from members of its staff who undertake, or fail to follow procedures designed to prevent, fraudulent activities.

If the Group does not provide effective training to employees working within its claims department, does not continue to work with the UK Insurance Fraud Bureau in developing counter-fraud measures or otherwise fails to implement or sustain an effective counter-fraud strategy, the ability of the Group to combat fraud could be adversely affected. In addition, there can be no guarantee that the Group’s proactive anti-fraud measures will be successful in the prevention or detection of fraud. A failure to combat the risks of fraud effectively could adversely affect the profits of the Group as claims incidence and average payouts could increase. Further, such costs may have to be passed on to customers in the form of higher premium levels, which could result in a decrease in policy sales.

1.25 The Group’s venture into the legal sector makes it vulnerable to a new set of risks which could negatively impact on the Business

The Group has entered into a partnership with law firm Irwin Mitchell LLP to form IMe Law (which is 91 per cent. owned by Irwin Mitchell LLP/IMCO Holdings Ltd). The venture was granted an Alternative Business Structure ("**ABS**") licence by the Solicitors Regulation Authority (the "**SRA**") pursuant to its powers under Part 5 of the Legal Services Act 2007. IMe Law is regulated by the SRA and, as such, is subject to the SRA Principles, the SRA Code of Conduct and other SRA Handbook provisions.

There are a variety of risks to which the Group is exposed through its partnership with Irwin Mitchell. Primarily, law firms are expensive organisations to run with high operating costs (salaries typically being the most substantial cost); this could place IMe Law at particular financial risk in times of economic downturn and a potential situation in which the Group would be required to assume the losses of IMe Law. Further to the stringent regulations which the Group (as a financial institution) must adhere to, law firms are also strictly regulated by the SRA which therefore adds another layer of regulation by which the Group must abide and subsequently increases the potential for any breaches of such regulation by IMe Law which the Group now owns. Owing to the high potential liability which law firms face, it is standard for professional indemnity insurance to be utilised to cover this risk. However, there is always the risk that the professional indemnity insurance policies which the law firm has in place will not cover every liability claim and therefore there is the risk that IMe Law could incur potential liability and significant costs which may be for the Group to assume. If IMe Law incurs liability (not covered by its professional indemnity insurance), there could be negative implications on the reputation of IMe Law, and therefore the Group.

1.26 The Business uses price comparison websites to distribute most of its products. The loss of business provided in this way or a change in the Group's arrangements with price comparison websites could lead to decreased brand visibility and fewer sales of new policies, while the sustained growth of price comparison websites may exert downward pricing pressures on the Group

In common with the majority of its competitors, the Group uses price comparison websites for sales of its products. Approximately 80-85 per cent. of the Group's new policies for motor and home insurance in 2013 was generated through price comparison websites. The remaining 15-20 per cent. for motor and home insurance in 2013 was generated through direct telephone and website sales in approximately equal proportions.

Any failure by the Group to maintain its commercial relationships with existing price comparison websites, or a failure to build relationships with new entrants to the market, could have a material adverse effect on the Group's results of operations and/or financial condition.

The Group's results of operations could also be adversely affected by changes in the commercial arrangements with price comparison websites, such as increases in the fees charged to the Group, changes in fee charging practices, changes in search algorithms used by the price comparison website, and/or changes in the basis on which renewals of business sourced through price comparison websites have been dealt with to date. To the extent that price comparison websites become more dominant in the market, this risk will increase.

In addition, a growth in the number and size of price comparison websites and the increased use of price comparison websites by consumers could lead to downward pricing pressures on the Group. If the Group lowers its premiums to compete with other insurers quoted on price comparison websites, the Group's profitability and results of operations could be adversely affected.

The Group uses price comparison websites to create the initial relationship with its customers. It relies, to some extent, on customers acquired in this way renewing their policies with it directly rather than going back to price comparison websites at renewal. To the extent that this changes and results in the Group paying higher fees to price comparison websites, the Group's results of operations could be adversely affected.

As an industry, price comparison websites themselves face a number of risks to their businesses, including:

- changes in law or regulation making it unlawful or impractical to continue to run their businesses in the current manner. Such changes could result from regulatory investigations into the industry such as the FCA's recent thematic review into insurance price comparison websites;

- changes in customer perception of price comparison websites being a trusted market place, for example following the loss or misuse of personal data from any price comparison website;

- insurers ceasing to sell products through price comparison websites resulting in price comparison websites being less popular with consumers;

- insurer retention rates improving, in particular, for renewals;

- the technology used by price comparison websites becoming obsolete or incapable of properly comparing insurance products as they develop in complexity;

- damage or interruption to price comparison websites from power loss, telecommunications failures, computer viruses, attacks or other attempts to harm its systems;

- changes to the current distribution landscape or the emergence of other distribution channels, including, for example, the use of search engines or potential use of social media platforms for sales and distribution;

- competition among price comparison websites and from other insurance intermediaries;

- changes to the information supplied on price comparison websites with increased focus on product coverage and customer reviews and how this could impact insurers such as esure; and

- changes in internet practices resulting in price comparison websites being less able to market their websites.

These risks may result in price comparison websites ceasing to be able to operate their businesses or changing the manner in which they operate their businesses. This may in turn affect the ability of the Group to generate sales, result in higher product marketing and distribution costs, lead to decreased brand visibility and loss of market share, exert downward pricing pressures on the Group, or require the Group to review and revise the way it sells or markets its products. This could have a material adverse effect on the Group's results of operations, financial condition and prospects and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

1.27 The Group's financial performance may be adversely affected by the performance and value of Gocompare, which may in turn be affected by a range of factors, including competition from other price comparison websites, Gocompare's ability to continue attracting customers and the impact of regulatory investigations and reviews

The Group currently holds a 50 per cent. interest in Gocompare, which operates a price comparison website. In the first half of 2014 the Group's IFRS share of Gocompare's reported profits after taxation was £3.5 million, representing approximately 8 per cent. of the Group's profit after tax of £45.5 million. The Group received dividends from Gocompare during the first half of 2014 of £6.8 million (2013 1H: £2.8 million). On 8 December 2014 it was announced that the Group has entered into an agreement to acquire the outstanding 50 per cent. of the share capital of Gocompare for £95 million increasing its holding to 100 per cent. (the "**Acquisition**"). The Acquisition is subject to CMA approval and is expected to complete in mid-late Q1 2015.

As a price comparison website, Gocompare is exposed to the risks to which its industry is exposed, as described in section 1.1 of these Risk Factors. In addition to those industry risks, as between price comparison websites the industry itself is highly competitive. There are currently four main price comparison websites specialising in personal lines insurance operating in the UK (*confused.com*, *moneysupermarket.com*, *comparethemarket.com* and *gocompare.com*) along with some currently smaller operators, including Google. Each of the four main price comparison websites has a strong brand presence and for motor and home insurance provides a broadly similar service to the others (at least in terms of public perception). Gocompare is also exposed to various other risks; it is heavily reliant on its computers, data processing systems and other operations. If any of these should fail and lead to significant data loss, Gocompare could suffer financial and reputational damage.

The attractiveness of Gocompare's services to insurance providers and advertisers is determined by its ability to attract consumers to its websites in a cost-effective manner and to convert visits to its websites into sales. To continue to attract consumers to its website, Gocompare will, in common with other price comparison websites, have to make substantial investments in marketing and in the functionality of its services. There is no guarantee that Gocompare will be successful in attracting customers to its website and/or converting visits to its website into sales. An inability to attract customers and/or to convert visits into sales may result in a deterioration in the financial performance of Gocompare, which in turn could have a material adverse effect on amounts available to be distributed as dividends by Gocompare to the Group.

Currently, although the Group is entitled to appoint up to 50 per cent. in number of the board of directors of Gocompare, the Group does not legally control Gocompare and Gocompare's business is managed and operated independently of, and on an arm's length basis from, the Group. Accordingly, if the Acquisition does not go ahead, on a day-to-day basis Gocompare could be managed in a way that is detrimental to either its business or the Business, and the Group would have only a limited ability to intervene in its capacity as a shareholder. Even if the Acquisition takes place, there will be no material change in the relationship between the Group and Gocompare, with Gocompare continuing to be operated on a strictly independent basis. There is also a risk that key personnel or a material number of employees will leave Gocompare following the Acquisition. If Gocompare's financial performance deteriorates, the Group's financial condition may in turn be affected by virtue of the Group's 50 per cent., or following the Acquisition, 100 per cent., interest in Gocompare.

The investigation into certain aspects of the UK private motor insurance market following a reference from the OFT also examined the role of price comparison websites. Please see section 1.11 of these Risk Factors for further details of the investigation.

The FCA's thematic review into insurance price comparison websites (as detailed in "*Regulatory Overview*" below), the results of which were published on 16 July 2014, found that price comparison websites: (i) had not always taken reasonable steps to ensure consumers had the appropriate information to allow them to make informed choices as to core policies and add-on products; and (ii) had not sufficiently clarified their role in terms of products and services offered. The FCA also found that business models were not necessarily aligned with the best interests of consumers.

Following this publication, price comparison websites and providers are expected to consider the FCA's findings and take any appropriate action. The FCA intends to follow-up with the price comparison websites which took part in the thematic review by the end of January 2015 to ensure that any identified issues have been addressed appropriately.

Any changes in insurance and price comparison regulation may adversely affect Gocompare's underlying profitability, product range, distribution channels, capital requirements and consequently, its results and financing requirements. Gocompare may also face increased compliance costs relating to any changes to the legislation or regulation of its insurance or price comparison businesses. This may impact on the Group's investment in Gocompare and, in turn, could have a material adverse effect on the Group's business, operations and financial position.

1.28 The Acquisition of Gocompare is subject to certain regulatory approvals. If any of these are not satisfied (or waived, if applicable) the Acquisition may not complete

Completion of the Acquisition (as described in section 1.27 of these Risk Factors) is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including regulatory applications and merger control clearances. If these (or other) conditions are not satisfied (or waived, if applicable), or the transaction is otherwise terminated in accordance with its terms, the Acquisition will not be completed.

If the Acquisition proceeds, it will further expose the Group to certain risks, as detailed in section 1.27 of these Risk Factors. If the Acquisition does not proceed, Gocompare could be managed in a way that is detrimental to the interests of the Business, and the Group will only have limited ability to intervene in management decisions as a shareholder.

1.29 Changes to IFRS which affect insurance companies may adversely affect the Group's financial results

The Group's financial results may be adversely affected by changes to IFRS which may result in negative effects on the accounting treatment and valuation of the Group's insurance and reinsurance contracts.

Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The IASB published proposals as part of its IFRS 4 Insurance Contracts Phase II for Insurers Exposure Draft that would make significant changes to the financial reporting landscape of insurance entities. These proposals could be in force by 2018 and could affect the way in which the Group presents its financial information, including the effect of technical reserves and reinsurance on the value of insurance contracts. It is uncertain whether and how the proposals in the exposure draft will affect the Group should they become definitive international financial reporting standards but there is potential for them to adversely affect the Group's financial position. The Group may also have to devote resources to adapt the Group's organisation, processes and systems to reflect these changes. On the currently envisaged timetable, any changes may also need to be considered alongside other regulatory changes which may come into effect, and in particular Solvency II.

1.30 Any failure in the Group's websites, computer and data processing systems, whether as a result of actions taken by third parties, failure to develop or adopt necessary technology, malicious attacks or inadequate business continuity planning, could affect the Business and the Group's reputation, results of operations and financial condition

The Business is dependent upon the successful functioning of the Group's websites as well as the computer and data processing systems underlying its websites and other operations, most of which are supported by third party providers. There can be no assurance that third parties will be willing and able to perform their obligations in accordance with the terms and conditions of their contracts and arrangements with the Group. In particular, the Group has outsourced the operation and maintenance of a significant part of its IT infrastructure to CapGemini. If this agreement is not performed in accordance with its terms, the processing and storage of data and the day-to-day management of the Group's business may be affected. While the Group has disaster recovery and business continuity contingency plans, no assurance can be given that these would work as intended. In May 2014, the Group agreed a seven year renewal of its IT outsource relationship with CapGemini which takes effect following a systems transformation programme (replatforming and migration of the Group's IT systems). The current agreement for operational services will continue until the programme is completed (planned for Q1 2016).

If the agreement with CapGemini is terminated, the Directors believe that there would be no significant difficulty in selecting a replacement provider of IT operation and maintenance services. However, exit arrangements provided for under the CapGemini agreement may not be adequate or sufficient to prevent disruption to the Business during the potentially lengthy transitional period while alternative arrangements are put in place. Any such disruption could have a material adverse effect on the Group's results of operations and/or financial condition.

The Group relies on its computer and data processing systems for critical elements of its business process, including entry and retrieval of individual risk details, pricing and reserving, premium and claims processing, monitoring aggregate exposures and financial and regulatory reporting. No assurance can be given that the Group will be able to continue to design, develop, implement or utilise, in a cost-effective manner, information systems that provide the capabilities necessary for the Group to compete effectively. Any failure to adapt to technological developments could mean that the Group fails to increase or maintain its share of the online insurance market and this may have an adverse effect on the Business and future prospects.

Attacks on, or the failure or substantial degradation of, the Group's websites or its computer and data processing systems could interrupt the Group's operations or materially impact its ability to conduct business or otherwise adversely affect its reputation. Material flaws or damage to the websites or the system, if sustained or repeated, could result in the loss of existing or potential business relationships, compromise the Group's ability to pay claims in a timely manner or give rise to regulatory implications, which could result in a material adverse effect on the Business and the Group's results of operations and financial condition.

The Group collects, retains and processes confidential information in its systems regarding its business dealings, including personal data of its customers, thirdparty claimants, business contacts and employees, as part of the operation of its business. The Group must therefore comply with data protection and privacy laws and industry standards in the United Kingdom. Those laws and standards impose certain requirements on the Group in respect of the collection, use, processing and storage of such personal information. If data collected by the Group is not processed accurately and in accordance with notifications made to, or obligations imposed by, data subjects, regulators, other counterparties or applicable law, the Group faces the risk of regulatory censure, fines, reputational damage and financial costs. A security breach of the Group's computer or other systems could damage its reputation or result in liability or regulatory action. The Group might be required to spend significant capital and other resources to protect against such breaches or to alleviate problems caused by such breaches. Any publicised compromise of security could deter transactions involving the transmission of confidential information, including personal data.

Further, the Group's insurance coverage might not adequately compensate it for material losses that could occur due to disruptions to its service as a result of failure of its websites or systems.

1.31 The Group is exposed to payment processing risks, including increases in interchange and other fees, actions taken by third parties that disrupt the Group's

operations, failure by the Group to fully comply with rules and standards governing payment processing, and system failures and security breaches

The Group pays interchange and other fees for card payments, which may increase over time and raise operating costs and lower margins. The Group relies on third parties to provide payment processing services, and it could disrupt the Group's operations if these companies become unwilling or unable to provide these services. The Group is also subject to payment card association operating rules, certification requirements, Payment Card Industry Data Security Standards and rules governing electronic funds transfers which could change or be reinterpreted to make them difficult or impossible to comply with. The Company is not yet fully compliant with the Payment Card Industry Data Security Standards (in particular in relation to the prevention of recording of card details during telephone sales processes). Non-compliance with these standards is common to a range of business sectors, including the financial services sector. The Group has achieved compliance for its online (web) business transactions and is currently progressing towards compliance for its call centre infrastructure and currently expects to achieve full compliance in Q4 2015/Q1 2016. No guarantee can be given that such plans will be successful or will complete on schedule. Until the Group is fully compliant, or if in the future the Group fails to comply with these rules or requirements, the Group may be subject to fines and/or higher transactions fees and in extreme cases may lose its ability to accept credit or debit card payments from customers, process electronic funds transfers or facilitate other types of online payments. Should a security breach occur and customer data be accessed or stolen, then the Group could be liable for losses associated with the breach.

Any failure of the Group's payment processing systems, whether caused by a systems failure or otherwise, will adversely affect the Group's income in the short term and may result in it losing customers which may have an adverse effect on the Group's financial condition and future prospects. In addition, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the processes used by the Group to protect customer transaction data. If any such compromise or breach were to occur, it could have an adverse effect on the Business and the Group's reputation, future prospects, financial condition and/or results of operations.

1.32 Protecting the Group's intellectual property could involve costly and time-consuming measures or litigation, and failure to prevent the use of the Group's intellectual property by third parties could adversely affect the Business and future prospects of the Group

The Group holds a portfolio of registered UK and European trade marks which protect the names and logos of the *esure*, *Sheilas' Wheels* and *First Alternative* brands along with some related slogans. Although the Group has taken steps to reduce the risks of intellectual property infringement by third parties against the Group, including instructing trade mark attorneys to operate a watch service to identify applications for trade marks similar to those which protect the names and logos of *esure*, *Sheilas' Wheels* and *First Alternative*, such steps may be inadequate. In addition, third parties may independently discover the Group's trade secrets and proprietary information or systems, and, in such cases, the Group may not be able to rely on any intellectual property rights to prevent the use of such trade secrets, information or systems by such parties. Costly and time-

consuming litigation could be necessary to determine and enforce the scope of the Group's proprietary rights and the outcome of such litigation could not be guaranteed. Failure to prevent the use of such secrets, information or systems by such third parties could adversely affect the Business and future prospects of the Group.

Defined terms used in the following risk factors, unless otherwise stated, have the meaning given to them in the Conditions set out below in the section entitled "Terms and Conditions of the Notes".

2. Risks relating to the structure of the Notes

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

The Notes may, subject as provided in Condition 6, be redeemed before the Maturity Date at the sole discretion of the Issuer in the event of certain specified events relating to taxation or if the Notes or (in certain circumstances) any part thereof cease to qualify as Tier 2 Capital of the Issuer or all or any part of the Group (which part includes the Issuer and at least one other member of the Group), whether on a solo, group or consolidated basis, in each case at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

The Issuer currently expects the Notes, upon the implementation of Solvency II, to qualify (subject to any applicable limitations on the amount of such capital) as Tier 2 Capital, potentially via the application of transitional provisions set out in Solvency II. However, details of the implementation of Solvency II are not expected to be known until the Level 2 delegated acts, which will take the form of an EU Regulation and were published in final draft form on 10 October 2014 (the "**Draft Level 2 Delegated Acts**"), are published in the Official Journal of the European Union. It is currently expected that this will occur, and that the delegated acts will come into effect, in mid-January 2015, following a three-month period of scrutiny by the European Parliament and the Council of the European Union. However, the Draft Level 2 Delegated Acts could be published and come into effect earlier or the scrutiny period could be extended for a further three-month period. It has been reported that the Council has already decided not to object to the legislation.

Several sets of draft implementing technical standards and draft Level 3 guidelines have been published for consultation, and the majority of the first set of guidelines have been finalised and were published on 3 December 2014. The remaining implementing technical standards and guidelines required under Solvency II are expected to be consulted on and finalised throughout the remainder of 2014 and the first half of 2015. There can be no assurance that, following publication of such delegated acts, the Level 2 implementation measures will not be amended. In addition, even though the Issuer has given consideration to the Draft Level 2 Delegated Acts in the Conditions, there is remaining uncertainty as to their precise requirements.

Accordingly, there is a risk that, upon implementation of Solvency II in the UK or following any other change to the Relevant Rules, the Notes will cease to qualify as Tier 2 Capital of the Issuer or all or any part of the Group (which part includes the Issuer and

at least one other member of the Group), which would entitle the Issuer to redeem the Notes early at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

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

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

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

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Notes and, accordingly, the Issuer may at any time incur further obligations (including by issue of further debt securities) which rank senior to, or *pari passu* with, the Notes. Consequently there can be no assurance that the current level of senior or *pari passu* debt of the Issuer will not change. The issue of any such securities may reduce the amount (if any) recoverable by Noteholders on a winding-up of the Issuer.

If the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound-up or enter into administration, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes, whether or not the Issuer is wound up or enters into administration.

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

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

The payment obligations of the Issuer under the Notes are conditional upon (i) there being no breach of the Solvency Condition (as described in Condition 2.2) at the time of such payment and no such breach occurring as a result of such payment, (ii) in the case of the payment of interest, there being no Regulatory Deficiency Interest Deferral Event at the time of such payment and no such event occurring as a result of such payment, (iii) in the case of the redemption of the Notes, there being no Regulatory Deficiency Redemption Deferral Event at the time of such payment and no such event occurring as a result of such payment and (if then required) regulatory consent having been obtained and such redemption being made in compliance with the Relevant Rules at such time, and (iv) in the case of the redemption of the Notes, notification to, or consent or non-objection from, the Relevant Regulator (to the extent then required by the Relevant Regulator or the Relevant Rules). Any amounts of principal, interest, Arrears of Interest and any other amounts in respect of the Notes which cannot be paid on the scheduled payment date by virtue of such provisions must be deferred by the Issuer, and non-payment of the amounts so deferred shall not constitute a default under the Notes or the Trust Deed for any purpose, including enforcement action against the Issuer.

Any interest in respect of the Notes so deferred will, so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest. The holders of the Notes have no right to require payment of Arrears of Interest, and Arrears of Interest will become payable only at the discretion of the Issuer or upon the earliest of the dates set out in Condition 5.2 (a) to (c).

If redemption of the Notes is deferred, the Notes will only become due for redemption in the circumstances described in Condition 6.1(c) and (d).

The circumstances in which a Regulatory Deficiency Interest Deferral Event or a Regulatory Deficiency Redemption Deferral Event may occur are dependent upon the solvency position of the Issuer under the other requirements of Solvency II and/or the Relevant Rules, which themselves are subject to finalisation and subsequent amendment. Events which constitute a Regulatory Deficiency Interest Deferral Event or a Regulatory Deficiency Redemption Deferral Event could include, without limitation:

(a) the winding-up or administration of any insurance undertaking within the Group where the claims of the policyholders of such insurance undertaking may or will not be met; and

(b) any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached,

where such event is an event which under Solvency II and/or the Relevant Rules means that the Issuer must defer payments on the Notes in order that the Notes qualify and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions.

Any actual or anticipated deferral of interest or redemption can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes. In addition, as a result of the deferral provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other securities or instruments that do not require deferral of interest or principal, and may be more sensitive generally to adverse changes in the Issuer's financial condition.

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

In the event of certain specified events relating to taxation or if the Notes cease to qualify as Tier 2 Capital of the Issuer, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Qualifying Dated Tier 2 Securities, without the consent of the Noteholders.

Qualifying Dated Tier 2 Securities must, among other things, have terms not materially less favourable to holders than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank of international standing. However, there can be no assurance that, due to the particular circumstances of a holder of Notes, such Qualifying Dated Tier 2 Securities will be as favourable to a particular investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Qualifying Dated Tier 2 Securities are not materially less favourable to holders than the terms of the Notes.

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

The Trust Deed constituting the Notes contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed constituting the Notes also provides that, subject to the prior consent of the Relevant Regulator being obtained (to the extent that 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 Notes or

to the substitution of another company as principal debtor under the Notes in place of the Issuer in the circumstances described in Condition 11.

2.6 Restricted remedy for non-payment when due

In accordance with the current requirements for Tier 2 Capital, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up or administration and/or claiming in the liquidation of the Issuer. In particular, a deferral of payments as described in section 2.3 of these Risk Factors shall not constitute a default under the Notes or the Trust Deed for any purpose, including enforcement action against the Issuer.

2.7 The Issuer is the ultimate holding company of the Group and therefore payments on the Notes are structurally subordinated to the liabilities and obligations of the Issuer's subsidiaries

The Issuer is the ultimate holding company of the Group, with certain of its operations being conducted by operating subsidiaries. Accordingly, creditors of a subsidiary would have to be paid in full before sums would be available to the shareholders of that subsidiary (i.e. the Issuer or a subsidiary of the Issuer) and so to Noteholders. The Conditions do not limit the amount of liabilities that the Issuer's subsidiaries may incur. In addition, the Issuer may not necessarily have access to the full amount of cash flows generated by its operating subsidiaries, due in particular to legal or tax constraints, contractual restrictions and the subsidiary's financial and Regulatory Capital Requirements.

3. RISKS RELATING TO THE NOTES GENERALLY

3.1 EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State of the European Union 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 to certain limited types of entities established in that other Member State.

Amendments to the Savings Directive adopted by the Council of the European Union on 24 March 2014 will expand the circumstances in which payments which indirectly benefit an individual resident in another Member State must be reported, including where the payment is made to, or secured for, certain trusts or certain other legal arrangements. The amendments will also expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. Member States are required to apply these new requirements from 1 January 2017.

For a transitional period, Luxembourg and Austria are instead required, unless during such period those countries 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). Once the amendments referred to above are implemented, investors should be aware that withholding in the relevant Member State(s) may occur in a wider range of circumstances than at present. Luxembourg will elect out of the withholding system with effect from 1 January 2015 in favour of automatic information exchange under the Savings Directive.

A number of other non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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 nor any Paying Agent nor any other person would be obliged to pay Additional Amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to operate a withholding system pursuant to the Savings Directive or any law implementing or complying with or introduced to conform to such directive.

3.2 Change of law

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

3.3 Integral multiples of less than £100,000

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

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

4. RISKS RELATED TO THE MARKET GENERALLY

4.1 The secondary market generally

The Notes have no established trading market when issued, and one may never develop. If a market does develop it may not be liquid. In addition, the Notes will be unrated on issue, and the Issuer does not expect to seek a credit rating for the Notes at any time, which may limit the liquidity of the Notes in the secondary market. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield

comparable to similar investments that have a developed secondary market and/or which are rated. Illiquidity may have a severely adverse effect on the market value of the Notes.

If the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound-up or enter into administration, or if at any time there is any actual or anticipated deferral of interest or redemption in accordance with the Conditions, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes.

4.2 Exchange rate risks and exchange controls

The Issuer will pay principal and interest on 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 Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

4.3 Interest rate risks

Investment in the Notes, which bear a fixed rate of interest, involves the risk that subsequent increases in market interest rates may adversely affect the market value of them.

4.4 Risk that investors will have to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes will be represented by a Global Note Certificate (as defined in the Trust Deed). The Global Note Certificate will be deposited with a common depositary for, and registered in the name of the common nominee of, Euroclear and Clearstream, Luxembourg. Except in the limited circumstances described in the Global Note Certificate, 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 Certificate.

While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the 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 Certificate must rely on the procedures of Euroclear or Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

4.5 Risks relating to the U.S. Foreign Account Tax Compliance Withholding ("FATCA")

While the Notes are in global form and held within Euroclear and Clearstream, Luxembourg (together, the "**ICSDs**"), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the hands of the ICSDs and custodians or intermediaries. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Conditions, be required to pay Additional Amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA is particularly complex and its application to the Issuer, the Notes and the Noteholders is uncertain at this time. Each Noteholder should consult its own tax adviser to obtain a more detailed explanation of FATCA and to learn how this legislation might affect each Noteholder in its particular circumstances.

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes, substantially as they will appear on the Notes in definitive form (if issued).

The £125,000,000 6.75 per cent. Subordinated Notes due 2024 (the "**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 Notes) of esure Group plc (the "**Issuer**") are constituted by a trust deed dated 19 December 2014 (as may be amended or supplemented from time to time) (the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited (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 Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An Agency Agreement dated 19 December 2014 (the "**Agency Agreement**") has been entered into in relation to the Notes between the Issuer, Deutsche Bank Luxembourg S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), the Trustee, Deutsche Bank AG, London Branch as principal paying agent and the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). The principal paying agent and any other paying agent(s) for the time being appointed under the Agency Agreement are referred to below respectively as the "**Principal Paying Agent**" and the "**Paying Agents**" (which expression shall include the Principal Paying Agent). Copies of the Trust Deed and the Agency Agreement are available for inspection and collection during usual business hours and upon reasonable notice at the registered office for the time being of the Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified office of each of the Paying Agents.

The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1. Form, Denomination and Title

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

2. Status

2.1 Ranking

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of the winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, the payment obligations of the Issuer under or arising from the Notes and the Trust Deed, including any Arrears of Interest and any damages awarded for breach of any obligations in respect of the Notes, shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank at least *pari passu* with all other subordinated obligations of the Issuer

which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) ("***Pari Passu*** **Securities**") and shall rank in priority to the claims of holders of: (i) all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules); and (ii) all classes of share capital of the Issuer (together, the "**Junior Securities**").

2.2 Solvency Condition

Without prejudice to Condition 2.1 above, all payments under or arising from the Notes and the Trust Deed shall be conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Notes and the Trust Deed unless and until the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**").

For the purposes of this Condition 2.2, the Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors and *Pari Passu* Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors). A certificate as to the solvency of the Issuer signed by two Directors or, if there is a winding-up or administration of the Issuer, by two directors or authorised signatories of the liquidator or, as the case may be, the administrator of the Issuer shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

2.3 Set-off, etc.

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

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

On a winding-up of the Issuer, there may be no surplus assets available to meet the claims of the Noteholders after the claims of the parties ranking senior to the Noteholders (as provided in Condition 2) have been satisfied.

3. Register, Title and Transfers

3.1 Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

3.2 Title

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 (except to the extent, if any, that the Trust Deed expressly provides for such act to apply).

3.3 Transfers

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

3.4 Registration and delivery of Note Certificates

Within five business days of the surrender of a Note Certificate in accordance with Condition 3.3 above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class

mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

3.5 No charge

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

3.6 Closed periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes or during the period following delivery of a notice of a voluntary payment of Arrears of Interest in accordance with Condition 5.2 and Condition 16 and ending on the date referred to in such notice as having been fixed for such payment of Arrears of Interest.

3.7 Regulations concerning transfers and registration

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

4. Interest

4.1 Interest Rate and Interest Payment Dates

Subject to Condition 2.2 and Condition 5, each Note bears interest on its outstanding principal amount from (and including) the Issue Date at the rate of 6.75 per cent. per annum, payable semi-annually in arrear on 19 June and 19 December of each year, the first payment to be made on 19 June 2015 (each an "**Interest Payment Date**"). The first payment shall be in respect of the period from (and including) the Issue Date to (but excluding) 19 June 2015, and thereafter for each successive period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date.

4.2 Interest Accrual

Each 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 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.

4.3 Calculation of Interest

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

Interest shall be calculated per £1,000 in principal amount of the Notes (the "**Calculation Amount**") by applying the rate of interest referred to in Condition 4.1 to such Calculation Amount, multiplying the resulting figure by the day count fraction described in the immediately preceding paragraph and rounding the resultant figure to two decimal places (with 0.005 being rounded up). The amount of interest payable in respect of a Note shall be calculated by multiplying the amount of interest per Calculation Amount determined as aforesaid by the specified denomination of such Note and dividing the resulting figure by £1,000.

5. Deferral of Payments

5.1 Mandatory Deferral of Interest

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

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

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment of interest on a Mandatory Interest Deferral Date in accordance with this Condition 5.1 or in accordance with Condition 2.2 will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes.

5.2 Arrears of Interest

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of the obligation on the Issuer to defer pursuant to Condition 5.1 or due to the operation of the Solvency Condition contained in Condition 2.2, together with any other interest in respect of the Notes not paid on an earlier Interest Payment Date shall, so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest shall not themselves bear interest.

Any Arrears of Interest may (subject to Condition 2.2 and (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator), be paid in whole or in part at any time (provided that at such time a Regulatory Deficiency Interest Deferral Event is not subsisting and would not occur if payment of such Arrears of Interest was made) upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee and the Principal Paying Agent in writing and to the Noteholders in accordance with Condition 16, and in any event will become due and payable (subject, in the case of (a) and (c) below, to Condition 2.2 and (to the extent then required by the Relevant Regulator or the Relevant Rules) any notifications to, or consent or non-objection from, the Relevant Regulator) in whole (and not in part) upon the earliest of the following dates:

(a) the next Interest Payment Date which is not a Mandatory Interest Deferral Date; or

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

(c) the date fixed for any redemption or purchase of Notes by or on behalf of the Issuer or any of its Subsidiaries pursuant to Condition 6.

6. Redemption, Substitution, Variation, Purchase and Options

6.1 Redemption

(a) Subject to Condition 2.2, Condition 6.1(b) below and to compliance by the Issuer with regulatory rules including (to the extent then required by the Relevant Regulator or the Relevant Rules) on notification to, or consent or non-objection from, the Relevant Regulator, and provided that such redemption is permitted under the Relevant Rules applicable from time to time to the Issuer (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions), unless previously redeemed or purchased and cancelled as provided below each Note shall be redeemed on the Maturity Date at its principal amount together with Arrears of Interest, if any, and any other interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

(b) No Notes shall be redeemed on the Maturity Date pursuant to Condition 6.1(a) or prior to the Maturity Date pursuant to Condition 6.3 or Condition 6.4 if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made on, if Condition 6.1(a) applies, the Maturity Date or, if Condition 6.3 or Condition 6.4 applies, any date specified for redemption in accordance with such Conditions.

(c) If the Notes are not to be redeemed on the Maturity Date pursuant to Condition 6.1(a) or on any scheduled redemption date pursuant to Condition 6.3 or Condition 6.4 as a result of circumstances where:

(i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed on such date;

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

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

the Issuer shall notify the Trustee and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 no later than five Business Days prior to the Maturity Date or the date specified for redemption in accordance with Condition 6.3 or Condition 6.4, as applicable, (or as soon as reasonably practicable if the relevant circumstance requiring redemption to be deferred arises, or is determined, less than five Business Days prior to the relevant redemption date).

(d) If redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6.3 or Condition 6.4 as a result of Condition 6.1(b) above or the Relevant Regulator does not consent to the redemption (to the extent that consent is then required by the Relevant Regulator or the Relevant Rules) or the Relevant Regulator objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date, subject (in the case of (i) and (ii) below only) to Condition 2.2 and (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator, such Notes shall be redeemed at their principal amount together with Arrears of Interest, if any, and any other interest accrued to (but excluding) the date of redemption, upon the earliest of:

(i) (in the case of a failure to redeem due to the operation of Condition 6.1(b) only) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless, on such tenth Business Day, a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or

redemption of the Notes on such date would result in a Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 6.1(b), Condition 6.1(c) and this Condition 6.1(d) shall apply *mutatis mutandis* to determine the due date for redemption); or

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

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

(e) If Condition 6.1(b) does not apply, but redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6.3 or Condition 6.4 as a result of the Solvency Condition not being satisfied at such time and immediately after such payment, subject (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator, such 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 (i) the Issuer is solvent for the purposes of Condition 2.2 and (ii) redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 2.2, provided that if on such Business Day specified for redemption a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed, or if the Solvency Condition would not be satisfied on such date and immediately after the redemption, then the Notes shall not be redeemed on such date and Condition 2.2 and Condition 6.1(d) shall apply *mutatis mutandis* to determine the date of the redemption of the Notes.

(f) A certificate signed by two Directors confirming that (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made or (ii) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring or (iii) that any of the circumstances described in Condition 6.1(c)(ii) or (iii) apply, shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person.

(g) Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 2.2 or this Condition 6 will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any other action under the Notes or the Trust Deed.

6.2 Conditions to Redemption, Substitution, Variation or Purchase

Any redemption, substitution, variation or purchase of the Notes is subject to the Issuer having complied with relevant legal or regulatory requirements including (to the extent then required by the Relevant Regulator or the Relevant Rules) rules on notification to, or consent or non-objection from, the Relevant Regulator and being in continued compliance with the Regulatory Capital Requirements applicable to it at the relevant time and, in the case of a redemption or purchase that is within five years of the Issue Date of the Notes, to such redemption or purchase being funded out of the proceeds of a new issuance of capital of at least the same quality as the Notes and being otherwise permitted under the Relevant Rules. If, on or after Solvency II Implementation, (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions) Solvency II does not require a redemption or purchase that is within five years of the Issue Date of the Notes to be funded out of the proceeds of a new issuance of capital of at least the same quality as the Notes, such a redemption or purchase will not be required to be so funded but such a redemption or purchase will be subject to the Relevant Rules.

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

In the case of a redemption that is within five years of the Issue Date of the Notes, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that it would have been reasonable for the Issuer to conclude, judged at the time of the issue of the Notes, that the circumstance entitling the Issuer to exercise the right of redemption was unlikely to occur. Such certificate shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

6.3 Redemption, Substitution or Variation Due to Taxation

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

(a) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the UK or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the UK is a party, or any change in the application or official interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions (in respect of securities similar to the Notes and which are capable of constituting Lower Tier 2 Capital under the rules applicable at issuance) or which differs from any specific written confirmation given by a tax authority in respect of the Notes, which change or amendment becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by UK Act of Parliament or by Statutory

Instrument, on or after the Issue Date of the Notes (each a "**Tax Law Change**"), in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or

(b) as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, (i) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the UK, or such entitlement is materially reduced; or (ii) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable UK tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist) and, in each such case, the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it,

then the Issuer may:

(x) subject to Condition 2.2, Condition 6.1(b) and Condition 6.2 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 16, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with Arrears of Interest, if any, and any other interest accrued to (but excluding) the date of redemption in accordance with these Conditions; provided that, in the case of a Tax Law Change which is a proposed amendment or a proposed change only, no such notice of redemption shall be given earlier than 90 days prior to: (i) the earliest date on which the Issuer would be required to pay such Additional Amounts (in the case of a redemption pursuant to Condition 6.3(a)); or (ii) the first Interest Payment Date on which the eventuality set out in Condition 6.3(b)(i) or Condition 6.3(b)(ii), as applicable, would materialise (in the case of a redemption pursuant to Condition 6.3(b)), as applicable; or

(y) subject to Condition 6.2 (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Dated Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (y) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of Qualifying Dated Tier 2 Securities) agree to such substitution or variation. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities provided that the Trustee shall not be obliged to participate or assist in or agree to any such substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities if the terms of the securities into which the Notes are to be substituted or are to be varied or such substitution or

variation impose, in the Trustee's opinion, more onerous obligations or duties upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so participate or assist or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6.3 the Issuer shall deliver to the Trustee (A) a certificate signed by two Directors stating that the relevant requirement or circumstance referred to in Condition 6.3(a) or Condition 6.3(b) applies and (B) an opinion from a nationally recognised law firm or other tax adviser in the UK experienced in such matters to the effect that the relevant requirement or circumstance referred to in Condition 6.3(a) or Condition 6.3(b) applies. Such certificate and opinion shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate and opinion without further enquiry and without liability to any person. Upon expiry of such notice the Issuer shall (subject to Condition 6.2 and, in the case of a redemption, to Condition 2.2, Condition 6.1(b), Condition 6.1(c) and Condition 6.1(d)) either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6.3, the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

6.4 Redemption, Substitution or Variation at the Option of the Issuer due to Capital Disqualification Event

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

(a) the Issuer may, subject to Condition 2.2, Condition 6.1(b) and Condition 6.2 and having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16, the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem in accordance with these Conditions all, but not some only, of the Notes at any time. The Notes will be redeemed at their principal amount, together with Arrears of Interest, if any, and any other interest accrued to (but excluding) the date of redemption in accordance with these Conditions; or

(b) the Issuer may, subject to Condition 6.2 (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Dated 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 certificate of the Directors of the Issuer referred to below and in the definition of Qualifying Dated Tier 2 Securities) agree to such substitution or variation. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities provided that the Trustee

shall not be obliged to participate or assist in any such substitution or variation or agree to the terms of the securities into which the Notes are to be substituted or are to be varied if such substitution or variation imposes, in the Trustee's opinion, more onerous obligations or duties upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so participate or assist or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6.4 the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate. Such certificate shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person. Upon expiry of such notice the Issuer shall (subject to Condition 6.2 and, in the case of a redemption, to Condition 2.2, Condition 6.1(b), Condition 6.1(c) and Condition 6.1(d)) either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6.4, the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

6.5 Purchases

Subject to Conditions 2.2 and 6.2, the Issuer and any of its Subsidiaries may, at any time, purchase Notes in the open market or otherwise and at any price.

6.6 Cancellation

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

6.7 Trustee Not Obliged to Monitor

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

7. Payments

7.1 Method of Payment

(a) **Principal**: Payments of principal shall be made by sterling cheque drawn on, or, upon application by a Holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a sterling account maintained by or on behalf of the payee with a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of the Principal Paying Agent.

(b) **Interest**: Payments of interest shall be made by sterling cheque drawn on, or, upon application by a Holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a sterling account maintained by or on behalf of the payee with a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of the Principal Paying Agent.

7.2 Payments subject to Fiscal Laws

All payments will be subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

7.3 Record date

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

7.4 Appointment of Agents

The Principal Paying Agent initially appointed by the Issuer and its specified office are listed below. Subject as provided in the Agency Agreement, the Principal Paying Agent and the Paying Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent or any other Paying Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain (a)

a Principal Paying Agent, (b) a Paying Agent having a specified office in a European Union Member State that will not be obliged to withhold or deduct tax whether pursuant to Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive, any agreement between the European Union and any jurisdiction providing for equivalent measures or otherwise (so long as there is such a Member State), (c) a Paying Agent having specified offices in London so long as the Notes are admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market and (d) a Registrar. Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 16.

7.5 Non-Business Days

If any date for payment in respect of any Note is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment. In these Conditions, "**Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business:

(a) (in the case of this Condition 7) in the place where such Note is presented for payment; or

(b) in any other case, in London.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the UK or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required by law to be made ("**Additional Amounts**"), except that no such Additional Amounts shall be payable with respect to any Note:

(a) *Other connection*: presented for payment by or on behalf of a Noteholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the UK other than the mere holding of the Note; or

(b) *Lawful avoidance of withholding*: presented for payment by or on behalf of, a Noteholder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any person who is associated or connected with the Noteholder for the purposes of any tax complies with any statutory requirements or by making or procuring that any such person makes a declaration of non residence or other similar claim for exemption to any tax authority in the place where the relevant Note is presented for payment; or

(c) *Presentation more than 30 days after the Relevant Date*: presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the Noteholder would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day; or

(d) *EU Savings Directive*: where such withholding or deduction is required to be made pursuant to Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced to conform to, such directive (as amended from time to time) or any agreement between the European Union and any jurisdiction providing for equivalent measures; or

(e) *Payment by another Paying Agent*: 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 to another Paying Agent in a Member State of the European Union (provided that there is such a Paying Agent appointed at the relevant time).

As used in these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to principal and/or interest shall be deemed to include any Additional Amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. Prescription

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

10. Events of Default and Enforcement

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

Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings is limited to circumstances where payment has become due and is not duly paid. Pursuant to Condition 2.2, no principal, interest or any other amount will be due on the relevant payment date if the 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 Notes, such payment will be deferred and will not be due if Condition 5.1 applies and in the case of payment of principal, such payment will be deferred and will not be due if Condition 6.1(b) applies or the Relevant Regulator does not consent to the redemption (to the extent that consent is then required by the Relevant Regulator or the Relevant Rules), the Relevant Regulator objects to the

redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date.

If default is made for a period of 14 days or more in the payment of any interest (including, without limitation, Arrears of Interest) or principal due in respect of the Notes or any of them, the Trustee in its discretion may, and if so requested by Noteholders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to its having been indemnified and/or secured and/or prefunded to its satisfaction), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer 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 Notes or the Trust Deed may be made by the Issuer pursuant to Condition 10.1, nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or non-objection from, the Relevant Regulator, which the Issuer shall confirm in writing to the Trustee.

10.2 Amount payable on winding-up or administration

If an order is made by the competent court or resolution passed for the winding-up of the Issuer (other than an Approved Winding-up) or an administrator of the Issuer gives notice that it 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 Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer (or, as applicable, the administrator or liquidator) that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at the amount equal to their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest, and the claim in respect thereof will be subject to the subordination provided for in Condition 2.1.

In addition, any other amounts in respect of the Notes (including any damages awarded for breach of any obligations under these Conditions or the Trust Deed) in respect of which the Solvency Condition was not satisfied on the date upon which the same would otherwise have become due and payable will be payable by the Issuer in a winding-up or administration of the Issuer, and the claim in respect thereof will be subject to the subordination provided for in Condition 2.1. Such claims shall not bear interest.

10.3 Enforcement

Without prejudice to Condition 10.1 or Condition 10.2 above, the Trustee may at its discretion and without further notice institute such proceedings or take such steps or actions against the Issuer as it may think fit to enforce any obligation, term, condition or provision binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed including, without limitation, payment of any principal or interest (including, without limitation, Arrears of Interest) in respect of the Notes and any damages awarded for breach of any obligations) but in no event shall the Issuer, by virtue of the institution of

any such proceedings or the taking of such steps or actions, be obliged to pay any sum or sums (in cash or otherwise) sooner than the same would otherwise have been payable by it. Nothing in this Condition 10.3 shall, subject to Condition 10.1, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including without limitation, payment of any principal or interest (including, without limitation, Arrears of Interest) in respect of the Notes and any damages awarded for any breach of any obligations under the Notes or the Trust Deed).

10.4 Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 10.1, Condition 10.2 or Condition 10.3 above to enforce the obligations of the Issuer under the Trust Deed or the Notes unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

10.5 Right of Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer 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 winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.6 Extent of Noteholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

11. Meetings of Noteholders, Modification, Waiver and Substitution

11.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons holding Notes or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals,

inter alia (a) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Arrears of Interest on the Notes, (b) to reduce or cancel the principal amount of the Notes, (c) to reduce the rate or rates of interest or Arrears of Interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any interest amount in respect of the Notes, (d) to vary the currency or currencies of payment or denomination of the Notes, (e) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (f) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (g) to modify Condition 2, in which case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed made in the circumstances described in Condition 6.3 or Condition 6.4 in connection with the substitution or variation of the Notes so that they remain or become Qualifying Dated Tier 2 Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 6.3 or Condition 6.4, as the case may be. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

11.2 Modification of the Trust Deed or the Agency Agreement

The Trustee may agree, without the consent of the Noteholders, to (a) any modification of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error, and (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders.

Any such modification, authorisation or waiver shall be binding on the Noteholders and such modification shall be notified to the Noteholders as soon as practicable thereafter.

11.3 Notice to the Relevant Regulator

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

11.4 Substitution

The Trustee may agree with the Issuer, without the consent of the Noteholders, to the substitution on a subordinated basis equivalent to that referred to in Condition 2 of any person or persons incorporated in any country in the world (the "**Substitute Obligor**") in

place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed and the Notes provided that:

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

(b) (unless the successor in business of the Issuer is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed and the Notes are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee, and provided further that the obligations of such guarantor shall be subject to a solvency condition equivalent to that set out in Condition 2.2, such guarantor shall not exercise rights of subrogation or contribution against the Substitute Obligor without the consent of the Trustee and the only event of default applying to such guarantor shall be an event of default equivalent to that set out in Condition 10.1.

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

(d) (without prejudice to the rights of reliance of the Trustee under Condition 11.4(c) above) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;

(e) (without prejudice to the generality of Condition 11.4(a) above) the Trustee may in the event of such substitution agree, without the consent of the Noteholders, to a change in the law governing the Trust Deed and/or the Notes, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders;

(f) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory or any such authority to the taxing jurisdiction of which the Issuer is subject generally (the "**Issuer's Territory**"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for the references in that Condition and in Condition 6.3 to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed and the Notes will be read accordingly; and

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

Any substitution pursuant to this Condition 11 shall be subject (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator.

12. Entitlement of the Trustee

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

13. Indemnification of the Trustee

The Trust Deed contains provisions for the provision of indemnification, security and prefunding to the Trustee and for its relief from responsibility, including provisions relieving it from taking any steps or action, including instituting any proceedings, unless indemnified, secured or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

14. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

15. Further Issues

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

securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. Notices

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

17. Contracts (Rights of Third Parties) Act 1999

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

18. Definitions

As used herein:

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

"**Approved Winding-up**" means a solvent winding-up of the Issuer 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 Notes shall thereby become payable;

"**Arrears of Interest**" has the meaning given to it in Condition 5.2;

"**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;

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

"**Business Day**" has the meaning given to it in Condition 7.5;

"**Calculation Amount**" has the meaning given to it in Condition 4.3;

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

(i) the entire principal amount of the Notes is fully excluded from counting; or

(ii) in the circumstances where such capability derives only from transitional or grandfathering provisions under the Directive, Solvency II or the Relevant Rules, as appropriate, less than 100 per cent. of the principal amount of the Notes outstanding at such time is capable of counting,

as Tier 2 Capital for the purposes of the Issuer or all or any part of the Group (which part includes the Issuer and at least one other member of the Group), whether on a solo, group or consolidated basis, except (in either case) where such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than a limitation derived from transitional or grandfathering provisions as set out in (ii) above);

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

"**Directors**" means the directors of the Issuer;

"**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 of the European Union on markets in financial instruments, as amended;

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

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

"**FSMA**" means the UK Financial Services and Markets Act 2000, as amended from time to time;

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

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

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

"**Holder**" has the meaning given to it in Condition 3.1;

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

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

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

where the claims of the policyholders of the insurance undertaking which is in winding-up or administration may or will not be met (and for these purposes, the claims of policyholders shall include all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have);

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

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

"**Interest Payment Date**" has the meaning given to it in Condition 4.1;

"**Issuer's Territory**" has the meaning given to it in Condition 11.4(f);

"**Issue Date**" means 19 December 2014, being the date of the initial issue of the Notes;

"**Junior Creditors**" means creditors of the Issuer whose claims rank, or are expressed to rank junior to, the claims of the Noteholders, including (without limitation) holders of Junior Securities;

"**Junior Securities**" has the meaning given to it in Condition 2.1;

"**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;

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

"**Mandatory Interest Deferral Date**" means each Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date;

"**Maturity Date**" means 19 December 2024;

"**Minimum Capital Requirement**" means the Minimum Capital Requirement or the group Minimum Capital Requirement (as applicable) referred to in Solvency II or the Relevant Rules;

"**Noteholder**" has the meaning given to it in Condition 3.1;

"**Note Certificate**" has the meaning given to it in Condition 3.1;

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

"***Pari Passu* Securities**" has the meaning given to it in Condition 2.1;

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

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

(i) have terms not materially less favourable to a holder than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank of international standing;

(ii) (subject to (i) above) contain terms which comply with the then current requirements of the Relevant Regulator in relation to Lower Tier 2 Capital (prior to Solvency II Implementation) or Tier 2 Capital (on or after Solvency II Implementation); and

(iii) are listed or admitted to trading on the EEA Regulated Market of the London Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee,

and provided that a certification to the effect of (i) and (ii) above, signed by two Directors, shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue of the relevant securities;

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

"**Record Date**" has the meaning given to it in Condition 7.3;

"Register" has the meaning given to it in Condition 3.1;

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

"**Regulatory Deficiency Interest Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing and any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

“**Regulatory Deficiency Redemption Deferral Event**” means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing and any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer or suspend repayment or redemption of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

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

“**Relevant Regulator**” means the UK Regulator or, if the UK Regulator at any time ceases to be the Group Supervisor or the Supplementary Supervisor, such other regulator as becomes the Group Supervisor for the purposes of Solvency II or the Supplementary Supervisor for the purposes of the Directive (as applicable) or such other regulator having primary supervisory authority with respect to prudential matters in relation to the Group;

“**Relevant Rules**” means any legislation, rules or regulations (whether having the force of law or otherwise) in the jurisdiction of the Relevant Regulator, implementing the Directive or, as applicable, Solvency II and any relevant prudential rules for insurers applied by the Relevant Regulator and any amendment, supplement or replacement of either 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 including all policyholders of the Issuer (for the avoidance of doubt, the claims of policyholders shall include all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have) 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 are in respect of instruments or obligations which constitute, or would but for any applicable limitation on the amount of any such capital constitute, (i) Tier 1 Capital or (ii) Tier 2 Capital, or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders);

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

“**Solvency Condition**” has the meaning given to it in Condition 2.2;

“**Solvency II**” means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of a regulation, a directive or otherwise);

"**Solvency II Directive**" means Directive 2009/138/EC of the European Parliament and of the Council of the European Union of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) 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 date from which legislation, rules or other measures implementing Solvency II in the UK (or, if the UK Regulator ceases to be the Supplementary Supervisor or ceases to be the Group Supervisor, in the jurisdiction of such replacement Supplementary Supervisor or of the replacement Group Supervisor, as applicable) are applied to the Issuer;

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

"**Substitute Obligor**" has the meaning given to it in Condition 11.4;

"**Substituted Territory**" has the meaning given to it in Condition 11.4(f);

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

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

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

"**Supplementary Supervisor**" means the regulatory authority exercising supplementary supervision over the Group in accordance with the Directive;

"**Tax Event**" means an event of the type described in Condition 6.3(a) or 6.3(b);

"**Tax Law Change**" has the meaning given to it in Condition 6.3(a);

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

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

"**UK Listing Authority**" means the UK Financial Conduct Authority in its capacity as the UK listing authority for the purposes of FSMA and, as applicable, any successor authority when acting as the UK competent listing authority for the purposes of Part VI (Official Listing) of FSMA or otherwise;

"**UK Regulator**" means the UK Prudential Regulation Authority or any successor UK regulatory authority having prudential supervisory responsibilities with respect to the Issuer and/or the Group; and

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

19. Governing Law

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

Overview of the Notes while in Global Form

1. Initial Issue of Certificates

The Global Note Certificate (as defined in the Trust Deed) will be registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and may be delivered on or prior to the Issue Date.

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

2. Relationship of Accountholders with Clearing Systems

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

3. Exchange

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

(a) an Event of Default (as set out in the Trust Deed) has occurred; or

(b) Euroclear and Clearstream, Luxembourg are both closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or both announce an intention permanently to cease business or do in fact do so and no Alternative Clearing System is available,

In the event of the occurrence of (a) or (b) above, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Global Note Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Any reference herein to Euroclear and/or Clearstream, Luxembourg, shall, wherever the context so permits, be deemed to include a reference to any Alternative Clearing System.

4. Amendments to Conditions

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

4.1 Payments

All payments in respect of Notes represented by the Global Note Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment where Clearing System Business Day means Monday to Friday (inclusive) except 25 December and 1 January.

4.2 Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Note Certificate shall (unless the Global Note Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

5. Trustee's Powers

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

6. Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders.

7. Notices

So long as all the Notes are represented by the Global Note Certificate and it is held on behalf of a Clearing System, notices to Noteholders will be given by delivery of the relevant notice to that Clearing System for communication by it to entitled accountholders in substitution for notification as required by the Conditions. A notice will be deemed to have been given to accountholders on the first Business Day following the day on which such notice is sent to the relevant Clearing System for delivery to entitled accountholders. While any of the Notes held by a Noteholder are represented by the Global Note Certificate, notices to be given by such Noteholder will be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg

and otherwise in such manner as the Trustee and Euroclear and/or Clearstream, Luxembourg may approve for this purpose.

8. Electronic Consent and Written Resolution

While any Global Note Certificate is registered in the name of any nominee for a Clearing System, then:

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

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

Business Description

DESCRIPTION OF THE ISSUER

1. Introduction

The Issuer was incorporated and registered in England and Wales on 3 November 2009 under the Companies Act as a private company limited by shares with the name Yellow Buyer Limited and was registered under number 07064312. On 15 February 2010, the Issuer changed its name to esure Group Holdings Limited. On 26 February 2013, the Issuer was re-registered as a public limited company and changed its name to esure Group plc.

The principal legislation under which the Issuer operates is the Companies Act, FSMA and the rules, regulations and guidance made thereunder, including (but not limited to) the rules and guidance contained in the PRA and FCA Handbooks and the PRA Rulebook (for further detail, please see "*Regulatory Overview*").

The head office and registered office of the Issuer is The Observatory, Castlefield Road, Reigate, Surrey RH2 0SG. The telephone number is +44 (0)173 722 2222.

The Group is an efficient, customer-focused personal lines insurer, founded in 2000 by Chairman, Peter Wood, Britain's foremost general insurance entrepreneur. The Group is one of the UK's leading providers of motor and home insurance products through the *esure* and *Sheilas' Wheels* brands. The Group's financial performance is underpinned by precise selection and pricing of risks through granular data analysis, and a diversified income portfolio.

The table below provides certain information with respect to the Group as at and for each of the years ended 31 December 2013, 2012; and as at and for the six months ended 30 June 2014:

	HY 2014	**HY 2013**	**FY 2013**	**FY 2012**
Gross written premiums (£m)........	260.4	265.4	535.8	515.0
In-force policies ('000s)..............	1,974	1,855	1,933	1,759
Trading profit (£m)................	61.0	65.2	130.6	138.1
Adjusted earnings per share[1] (pence)....	10.9	10.6	22.4	21.1
Dividend per share (pence).........	5.1	2.5	15.8	Nil

The Group's business is presented in four primary segments – Motor underwriting, Home underwriting, Non-underwritten Additional Services and Investments. At 30 June 2014, contributions to trading profit from these segments were 28 per cent., 9 per cent., 42 per cent. and 21 per cent. respectively, and the Group's financial position remains strong.

Motor underwriting

[1] Adjusted earnings per share is calculated as profit after tax divided by the number of ordinary shares in issue on Admission to the London Stock Exchange on 27 March 2013.

The Group's principal underwriting business is the sale of motor insurance policies in the UK. Policies are sold primarily under the Group's strong and widely recognised "*esure*" and "*Sheilas' Wheels*" brands, and distributed through a wide range of retail channels, i.e. direct phone, direct website and in particular price comparison websites.

The Group takes a conservative approach to insurance underwriting. It targets customers with a statistically low underwriting risk profile and places a strong emphasis on measures to monitor the underwriting risk exposure and overall risk profile of the Group's in-force policy books. Extensive management information is examined and tracked by the Group's management team and this analysis underpins a highly focused and disciplined approach to underwriting, pricing and decision making. In 2013, the Group re-entered certain segments of the UK motor market that it had previously exited during the personal injury phenomenon of 2008-2009. During 2014, the Group started to implement a number of new initiatives to increase its "quote footprint" in the motor insurance market. These initiatives are being rolled out to customers on a "test and learn" basis and will aid the Group's growth ambitions over the medium to long term.

In addition to the revenue generated from the underwriting of core motor policies, the Group also generates revenues from its motor business through the provision of Additional Services. Underwritten Additional Insurance Products are reported in this segment, with all other Additional Services and products reported in the "non-underwritten Additional Services" segment.

For the six months ended 30 June 2014, trading profit for the business segment was £17.1 million (28 per cent. of Group trading profit) and gross written premiums were £217.9 million (84 per cent. of the Group's gross written premiums).

Home underwriting

The Group has offered home insurance since September 2001 (shortly after the launch of the motor insurance business), but since 2008, and as part of the Group's strategy to place a greater focus on diversifying beyond motor insurance, its home underwriting business has grown significantly. The growth of the Group's home insurance business has also accelerated in part due to the significant growth in recent years of price comparison websites as a distribution channel for home insurance policies, together with the Group's own focus on (and experience in) the price comparison website channel.

As with its motor business, the Group targets home market segments with a statistically low underwriting risk profile, seeking to avoid flood, subsidence and storm risks.

The Group has also developed a specific range of home Additional Insurance Products to supplement the core home insurance cover provided by its home insurance policies, and, as with its motor insurance business, also generates revenues from the provision of other Additional Services to its home insurance policyholders. These revenues are reported in the "non-underwritten Additional Services" segment.

For the six months ended 30 June 2014, trading profit for the business segment was £5.4 million (9 per cent. of Group trading profit) and gross written premiums were £42.5 million (16 per cent. of the Group's gross written premiums)

Non-underwritten Additional Services

The Group generates income from non-underwritten Additional Services revenues. These products complement the core motor and home insurance products.

For the six months ended 30 June 2014, trading profit for the business segment was £25.5 million (42 per cent. of Group trading profit). See "*Non-underwritten Additional Services*" below for further details.

Investments

The Group derives income from its investment portfolio and receives a share of profits from its 50 per cent. interest in the price comparison website, gocompare.com.

The Group deploys a conservative investment strategy with the primary objective of capital preservation. Consistent with the Group's conservative investment strategy, the duration of the fixed income funds is approximately one year; and the Group held 84 per cent. of its investments bearing credit risk and cash and cash equivalents in funds rated "A" and above as at 30 June 2014.

gocompare.com is a price comparison website which offers a free online service to customers enabling them to search for and compare a range of products and services, including insurance, financial and travel products, as well as utilities and broadband services. The Group does not control Gocompare and the Gocompare business is independent and operationally separate from the Group. The Group's participation as a panel member of Gocompare is on strictly arm's length commercial terms.

For the six months ended 30 June 2014, trading profit for the business segment was £13.0 million (21 per cent. of Group trading profit).

2. History

The Group was founded in 2000 by Peter Wood, the Group's Chairman, together with financial backing from Halifax plc (which became part of HBOS Group in 2001). HBOS Group (which itself became part of Lloyds Banking Group in January 2009) continued to own 70 per cent. of the Group until February 2010, when a management team led by Peter Wood, together with an outside investor (Tosca Penta Investments LP), acquired the Group through a Management Buy-out. On 27 March 2013, the Issuer was listed on the London Stock Exchange.

Some key milestones in the Group's development include:

- **2001:** the Group wrote its first policies in January as the provider of "white label" car insurance to Halifax plc, whereby policies underwritten by the Group were sold to customers under the *Halifax Car Insurance* brand. In July 2001, the Group launched the *esure* brand, which focused on low risk customers (such as those with at least four years' "no claims discount") who were targeted through a dual focus on direct internet and telephone sales. The Group's *esure*-branded home insurance offering was also launched in September 2001.

- **2003:** launch of the *esure* brand's high profile "Calm Down Dear" advertising campaign, which was nominated in the 2003 National Business Awards for the Advertiser of the Year category. This campaign helped *esure* become one of the UK's fastest ever growing motor insurance brands between 2001 and 2005.

- **2005:** launch of the female-focused *Sheilas' Wheels* brand through its well-recognised commercials featuring three pink-clad singers and the "Sheilamobile". The *Sheilas' Wheels* brand attracted high volumes of female policyholders from the outset and today is one of the most widely recognised female-focused financial services brand in the UK. *Sheilas' Wheels*-branded home insurance was subsequently launched in 2008.

- **2006:** as the rising popularity of the price comparison website retail channel became clear, the Group started to distribute its products through *confused.com* and *moneysupermarket.com.*

- **2007:** sensing the emergence of a potential duopoly in the price comparison website distribution channel, in January the Group made a strategic investment in start-up price comparison website *gocompare.com*, purchasing an option to acquire 50 per cent. of Gocompare.com Holdings Limited.

- **2009:** reacting early to the advent of the industry-wide personal injury claims phenomenon within the motor insurance marketplace, the Group commenced steps to adapt its underwriting approach and reduce the Group's exposure to segments of the market displaying heightened personal injury claim risk.

- **2010:** successful completion of the Management Buy-out with financial backing from Tosca Penta Investments LP. Cessation of "white label" arrangements with HBOS for sale of insurance policies under the *Halifax Car Insurance* brand, with Lloyds TSB retaining the associated policy book.

- **2011:** adoption of new strategic focus on generating revenues from Additional Services through the development and sale of customer-focused Additional Insurance Products, and completion of strategic de-risking of the Group's motor insurance policy books in response to the personal injury claims phenomenon. In November 2011, the Group introduced its branded broker service. Repayment of £30 million of the £197 million investment made by Tosca Penta Investments LP in the Group at the time of the Management Buy-out from accumulated cash resources.

- **2012:** repayment of £32 million of the investment made in the Group by Tosca Penta Investments LP from accumulated cash resources. The Group also introduced two new motor insurance Additional Insurance Products (Misfuelling Cover and Key Cover) to increase customer choice, and set up a research and development department to explore the potential opportunities provided by social media for sales and brand awareness.

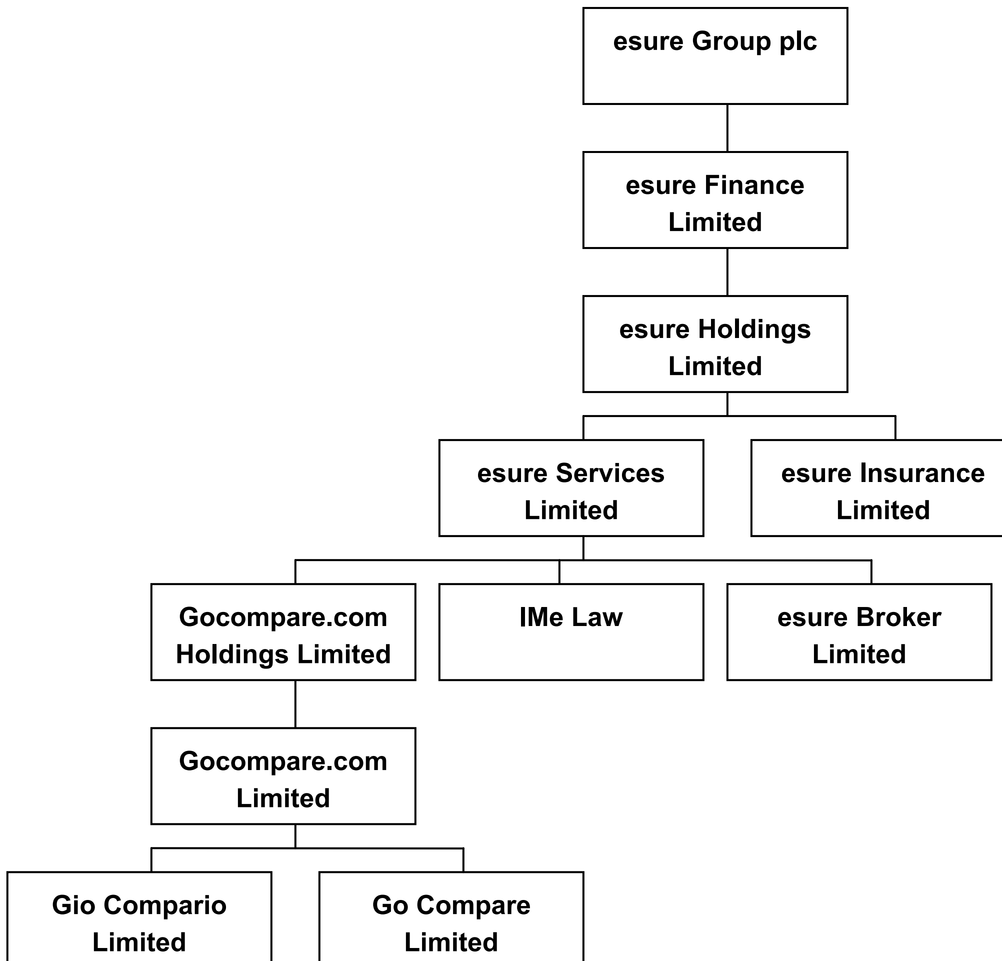
- **2013:** on 27 March 2013, the Issuer floats on the London Stock Exchange. Return of £134.85 million of the investment made by Tosca Penta Investments LP (of which: (i) £40 million was returned in February 2013; (ii) £44.85 million was satisfied from existing cash resources on Admission; and (iii) £50 million funded by the proceeds of Admission), leaving the Group debt free. Entry into the telematics market via the *Sheilas' Wheels*

Model Driver broker service on a "test and learn" basis. Introduction of a further motor Additional Insurance Product (Excess Cover). "Just in case" was launched as a further Additional Insurance Product, combining four Additional Insurance Products (car hire cover, personal injury benefit, misfuelling cover and key cover) into one product.

- **2014:** Introduction of a further home Additional Insurance Product (Travel). The Group enters into a partnership with the law firm, Irwin Mitchell, to offer a range of legal services to customers.

3. Organisational Structure of the Group

The Issuer is the holding company of the Group. Included within the Group's assets are its investments in Group companies. Its income and profits principally derive from subsidiary companies in the form of dividends. The following table shows the Group structure including all operating companies, following the Acquisition of the remaining 50 per cent. share capital in Gocompare.com Holdings Limited:



All companies are wholly owned (directly or indirectly) by the Issuer, except IMe Law which is 91 per cent. owned by Irwin Mitchell LLP / IMCO Holdings Ltd.

4. Overview of the Group's Markets

A. Motor insurance

Under the Road Traffic Act 1988, it is a criminal offence to drive a car for personal purposes on public roads in the UK without having insurance to cover legal liabilities for injuries to others and damage to third party property. Despite the relatively limited statutory requirement of ''third party liability'' insurance, the vast majority of private drivers in the UK opt for comprehensive cover.

The Group estimates that the number of licensed cars for use on the roads in the UK was approximately 26 million in 2013.

The performance of the UK private motor insurance market as a whole has tended to fluctuate in cyclical patterns characterised by periods of significant competition in pricing and underwriting terms followed by periods of lessened competition and increasing premium rates. From the end of 2009 until 2011, the market saw premium rates increase in response to the significant rise in frequency and severity of personal injury claims experienced across the UK private motor insurance market in the late 2000s. However, by late 2011 premium rates had plateaued. 2012, 2013 and the first half of 2014 have seen material rate reductions, indicating a period of increased competition in pricing. During the third quarter of 2014, there were signs of rating stabilisation in the motor market as evidenced by the market rating indices, however it is too early to say if this represents a turn in the motor rating cycle or is a consequence of rating seasonality.

In the UK, private motor insurance products are marketed and distributed to the public either directly or through some form of intermediary. The internet continues to grow in importance as a distribution channel for private motor insurance, in particular as a result of the growth of price comparison websites. The relatively commoditised nature of motor insurance products make them well suited to internet sales and the speed of the process, ease of usage and competitive pricing make using the internet and, in particular, price comparison websites, increasingly attractive to customers (with an estimated 60-65 per cent. of motor insurance customers in the market gained through price comparison websites in 2013).

The motor insurance market and its market participants are overseen and supervised by various regulatory bodies (predominantly the FCA, the PRA and the CMA). There have been a large number of regulatory changes in recent years, as well as a considerable amount of supervisory work in the general insurance sector. Further information on the regulatory regime applicable to the Group can be found in the section entitled "*Regulatory Overview*".

B. Home insurance

The Group estimates that the UK personal home insurance market consisted of approximately 26 million households in 2013.

Historically, home insurance customers have tended to take home insurance from their mortgage provider and have been less price conscious and less likely to change their insurance provider than personal motor insurance customers. However, this has been changing in recent years with greater consumer awareness of the availability of, and value benefits on offer from, alternative providers of home insurance and increased distribution of home insurance products

through price comparison websites (with an estimated 30 per cent. of home insurance customers in the market gained through price comparison websites in 2013).

Home insurance performance has not typically experienced similar cyclicality as motor insurance. Instead, profitability is more correlated with the occurrence of severe weather events which are unpredictable. Premium rates are set with an expectation of a certain level of weather-related claims, but claims costs will tend to be higher when severe weather occurs. 2011 saw a period of rate increases in response to the severe weather events of 2010, a level of stability in 2012, before competition intensified and rates reduced in 2013 and the first half of 2014.

The home insurance market and its market participants are overseen and monitored by various regulatory bodies (predominantly the FCA, the PRA and the CMA). Further information on the regulatory regime applicable to the Group can be found in the section entitled "*Regulatory Overview*".

5. Competitive Strengths

The Group has a number of key strengths which underpin the Group's core motor and home underwriting businesses.

A. Group

Experienced management team

Peter Wood, the Group's Chairman, has over 35 years' experience in the UK personal lines insurance industry and a distinguished record of success and innovation. Stuart Vann, the Group's Chief Executive Officer, has over 18 years' experience in the UK insurance industry and has also played an integral part in the development of the Group since joining in 2000. Darren Ogden, the Group's Chief Finance Officer has over 20 years' experience in the UK insurance industry, and 10 years with the Group including heading the Group's finance department since 2007.

Peter, Stuart and Darren are complemented by a strong and experienced senior management team.

Innovation

The Group has been characterised by an innovative and entrepreneurial approach to take advantage of changes to market dynamics and customer behaviours. Examples of this include:

- the strategic decision to target the female motor insurance market through its *Sheilas' Wheels* brand;
- navigating the change in retail approach required by the emergence of price comparison websites as a distribution channel (2006 onwards), including through the Group's strategic start-up investment in gocompare.com to take further advantage of this trend; and

- implementing new revenue growth strategies to diversify its revenue streams and manage the Group's exposure to market cyclicality of the motor insurance sector, including:

  1) targeted growth of home insurance underwriting business; and
  2) investment in research and development in and the launch of a number of customer focused Additional Insurance Products to enhance the Group's core motor and home insurance products and meet customer needs.

Strong and widely recognised brands

The *esure* and *Sheilas' Wheels* brands are well established personal lines brands in the UK:

- the *esure* brand was launched in 2001 and became one of the UK's fastest growing motor insurance brands through its iconic "Calm Down Dear" advertising campaigns fronted by the late Michael Winner and its focus on offering cheaper premiums to customers with higher accumulated "no claims discounts"; and

- the *Sheilas' Wheels* brand was launched in 2005 and today is one of the most widely recognised female-focused financial services brand in the UK. Through this brand, the Group has built a policy book comprising a vast majority of female policyholders who have historically demonstrated a lower incidence of personal injury claims. As at 30 June 2014, over 90 per cent. of policyholders in the Group's *Sheilas' Wheels* motor insurance policy book were female.

Prudent reserving policy

The Group operates a prudent reserving policy for retained underwriting risk, reserving comfortably in excess of a "best estimate" level of its Outstanding Claims Reserves (as determined through standard actuarial techniques and verified by independent consulting actuaries, as at 30 June 2014). This is a reflection both of the Group's conservative approach to up-front recognition of the expected costs of reported claims (these costs then being reflected in the Group's Outstanding Claims Reserves) and the Group's steady year-on-year accumulation of substantial IBNR Reserves.
Accordingly, the Group has historically experienced a favourable run-off in these reserves as claims have ultimately been settled at a lower cost than initially booked.

Strong financial and capital position

The Group has a strong financial position with no debt, robust reserves, a conservative investment portfolio and capital significantly in excess of the minimum regulatory requirements.

In addition, the Directors believe that the Group is well placed to meet the anticipated requirements of the Solvency II regime (the new EU regulatory framework for the prudential supervision of insurance companies, which is due to come into effect on 1 January 2016, as described further in the section entitled "*Regulatory Overview*").

Strong free cash generation

The Group derives a substantial proportion of its earnings from outside its core motor and home insurance underwriting activities through diversified, but related, business activities which are highly cash generative.

Expense base

The Group operates a lean and efficient cost base which is demonstrated in its strong expense ratio of 24.5 per cent. as at 30 June 2014.

B. Motor and Home insurance

Highly focused underwriting philosophy

The Group adopts a conservative approach to underwriting, targeting statistically low risk segments of the motor and home insurance markets, maintaining tight risk control and applying rigorous technical pricing when setting premium rates. This approach is founded on detailed diligence, modelling and analysis of internal data at a very granular level, supplemented by external data where relevant.

The Group's underwriting platform, which consists of a suite of underwriting systems, controls and processes, provides the ability to monitor actively and manage the Group's underwriting risk exposure and is designed to enable it to identify and react to emerging trends, such as adverse claims experience in particular market segments or disproportionate exposure within the Group's policy books to certain types of risk, at an early stage in their development. In turn, this active monitoring informs the Group's underwriting risk selection and pricing when writing both new and renewal business, allowing the Group to manage more effectively the overall composition and risk profile of its in-force policy books.

The Group's continual focus on data collection and analysis and on enhancing its underwriting systems, controls and processes should allow the Group to identify and respond rapidly to changing developments in the motor and home insurance markets.

Efficient and effective claims management

The Group operates a well-resourced and innovative claims function. The Group's specialised claims staff use its recently-launched, in-house designed, claims imaging workflow management system, helping to ensure that claims are managed efficiently and effectively. The Group has set up a number of initiatives and arrangements to keep the costs of claims down by avoiding excessive repair, credit hire and legal fees, including through its network of motor repairers and through a dedicated service for "not at fault" third parties claiming against any of the Group's policyholders.

The Group has particular expertise in the early identification of claims which have the potential to exceed £100,000. These are managed centrally in a dedicated large loss unit. The Group also operates a triage system to allocate certain types of personal injury claim (for example, multiple passenger claims or claims notified an atypically long time after the date of the accident) to specialist claims teams with the relevant experience, who are supported by a dedicated anti-fraud unit.

6. Business Model and Strategy

The business model and strategy are designed to deliver sustainable value over the long term.

The objective is to build and safeguard value for stakeholders; to develop strong relationships with customers, suppliers and staff; and to promote and protect the reputation of the Group. This objective is delivered through a customer-focused business model and promoted via a strategy of disciplined underwriting, targeted growth and continued diversification of our income streams. This strategy is bolstered by a number of strengths including prudent reserving, efficient business processes and innovative development.

The strategy is enacted by a team that is guided by Chairman, Peter Wood, a strong Board and an experienced management team led by CEO, Stuart Vann, and CFO, Darren Ogden.

A. Business Model

The Group provides motor and home insurance products and services to mainland UK customers through two core brands – *esure* and *Sheilas' Wheels*. The business model has been developed and enhanced over the past 14 years and includes:

Customer focus

Customers are at the heart of the business model. The Group attracts and retains them with excellent products sold effectively and compliantly through strong brands at competitive prices. The Group then seeks to service its customers with integrity and fairness throughout their relationship with the Group.

Technical risk focus

The Group has built up discrete books of business that should perform well, thanks to the tight risk control and rigorous technical pricing we employ. Data is collated, modelled and analysed at a very granular level to provide powerful insights into the risks we underwrite.

Strong brands

The Group's brands provide colour, meaning and depth to the business. *esure* and *Sheilas' Wheels* embody the promise to its customers and remain central to its continued success.

Diversified income streams

Diversification of income beyond the motor book helps to mitigate the effects of motor market cyclicality. The home insurance business reached a critical mass of over half a million customers in 2012 and has grown further since. The Group also offers a range of optional Additional Insurance Products to both motor and home customers to enhance their cover.

Other income streams include the Group's income from its conservative investment portfolio and the share of profits from the Group's 50 per cent. investment in the price comparison website gocompare.com.

Multi-channel distribution

The Group, throughout its history, has offered convenient ways for its customers and potential customers to interact with it. Policies are currently offered directly via our websites, over the telephone and via price comparison websites (approximately 80-85 per cent. of the Group's new policies for motor and home insurance in 2013 was generated through price comparison websites).

Culture

The Group works hard to encourage and promote the highest standards of professionalism and customer service which is embedded into its culture for the benefit of all of its customers.

It recognises that it is its people who make the Group a success and it strives to provide a rewarding place to work. The Group invests time in training staff and encouraging them to support and serve customers accordingly.

B. Strategy

The Group aims to deliver sustainable value for its stakeholders via its strategy that is designed to take advantage of the strengths inherent in its business model.

Focus on underwriting performance

The Group prices products for technical risk which, combined with its efficiency in running the business, translates as 'competitive pricing' within its target markets and intends to deliver a positive contribution to the Group.

Underwriting discipline is founded on:

- The active monitoring and management of underwriting risk exposure;
- Continued development and enrichment; and
- Tight risk control at policy inception and renewal, including:
  - anti-fraud measures in our sales, policy management and claims functions;
  - active management of segment exposure; and
  - efficient claims management.

Underwriting performance is a key driver of the Group's capital requirements, and its control is therefore a key foundation for delivering value. This underpins the Group's two other key strategic objectives.

Targeted growth

The number of licensed cars for use on the roads in the UK was approximately 26 million at the end of 2013, and the Group insured approximately 5 per cent. of the market. There were approximately 26 million households in 2013, of which the Group insured just over half a million, giving it a market share of approximately 2 per cent. The Group therefore has further scope to grow within these markets.

The Group seeks to acquire and retain customers via excellent customer service, keen pricing and its strong brands.

The Group pursues targeted growth within market segments where it sees the opportunity for positive underwriting performance. In 2013, the Group re-entered certain segments of the UK motor market that it had previously exited during the personal injury phenomenon of 2008-2009. During 2014, the Group implemented a number of new initiatives to increase its "quote footprint" in motor insurance market. These initiatives are being rolled out to customers on a "test and learn" basis and will aid the Group's growth ambitions over the medium to long term.

Growth needs the right infrastructure and the Group has made significant investments in its IT platforms, claims system and business premises in recent years to accommodate growth.

Continued diversification of income streams

The Group places a strong emphasis on diversifying its income streams beyond its core motor insurance business, for example, by targeting the home accounts and investments that complement its current business activity.

7. The Business

Overview

The Group's business is presented in four segments:

Motor underwriting

	HY 2014	HY 2013	FY 2013	FY 2012
Gross written premiums (£m)	217.9	221.9	446.5	429.0
Trading profit (£m)	17.1	18.3	41.0	30.5
In-force policies ('000s)	1,421	1,328	1,385	1,255

The Group's principal underwriting business is the sale of motor insurance policies in the UK. Policies are sold primarily under the Group's strong and widely recognised "*esure*" and "*Sheilas' Wheels*" brands, and distributed through a wide range of retail channels.

The Group takes a conservative approach to insurance underwriting. It targets customers with a statistically low underwriting risk profile and places a strong emphasis on measures to monitor the underwriting risk exposure and overall risk profile of the Group's in-force policy books.

The Group also generates revenues from its motor underwriting activities through the provision of Additional Services alongside the core motor insurance policy itself.

The Group generates revenues from Additional Services relating to its motor underwriting business in four principal ways, of which only the underwritten Additional Insurance Products are recognised in the motor underwriting segment, with the remaining Additional Services recognised in the segment "*Non-underwritten Additional Services*":

- **Additional Insurance Products**: these offer additional cover and protection over and

above that offered by the core motor insurance policy. The motor Additional Insurance Products currently being offered by the Group comprise:

(i) **Motor Legal Protection**: covering legal fees in pursuing a claim for uninsured losses defence against prosecution for motoring offences, and access to a 24 hour legal helpline. Launched in 2001 (cover and indemnity limits enhanced in 2012). This product is underwritten by the Group.

(ii) **Breakdown Assistance Cover**: breakdown cover provided through Green Flag. Launched in 2001. This product is not underwritten by the Group.

(iii) **Personal Injury Benefit**: providing capital benefits in the event of death or severe disablement (in addition to any sums paid under the core motor policy) for drivers involved in an accident and cover for certain medical expenses of drivers involved in "at fault" accidents. Launched in 2011 (enhanced in 2012 to give increased level of cover to drivers involved in "at fault" accidents). This product is underwritten by the Group.

(iv) **Car Hire Cover**: providing a replacement hire car to the policyholder for up to three weeks if the insured car is stolen or declared a write-off. Launched in 2011. This product is underwritten by the Group.

(v) **Misfuelling Cover**: for customers who have accidentally put the incorrect fuel in their car. This covers the costs of recovery of the vehicle, driver and passengers, drainage and cleaning of the fuel system, replenishment of the correct fuel, and related out of pocket expenses not covered by the core motor policy. Launched in 2012. This product is underwritten by the Group.

(vi) **Key Cover**: covering the cost of replacing lost, stolen or damaged car keys together with related out of pocket expenses not covered by the core motor policy. Launched in 2012. This product is underwritten by the Group.

(vii) **Excess Protection Cover**: pays the driver's policy excess in the event of a fault accident or fire and theft claim, subject to policy limits. Launched in January 2013. This product is underwritten by the Group.

(viii) **"Just in Case" Cover**: consolidates the "Personal Injury Benefit", "Car Hire Cover", "Misfuelling Cover" and "Key Cover" into one Additional Insurance Product that provides one convenient, discounted, easy to understand product. The product was launched in August 2013 and is underwritten by the Group.

- **Instalment income**: this comprises interest income received from customers who choose to pay for motor policies in monthly instalments rather than through a single premium payment at policy purchase.

- **Policy Administration Fees**: this comprises income received as a result of administration charges (for example, as a result of mid-term alterations to policy details by the policyholder) and cancellation charges.

- **Claims income**: this comprises the income generated by the Group fees generated from the appointment of firms used during the claims process, including medical and car hire suppliers (historically, the Group generated fees from legal panel membership across the UK, which are now generated only from Scotland).

Instalment income, policy administration fees and claims income are recognised in non-underwritten Additional Services and this is discussed in further detail in the "*Non-underwritten Additional Services*" segment.

Home underwriting

	HY 2014	**HY 2013**	**FY 2013**	**FY 2012**
Gross written premiums (£m)	42.5	43.5	89.3	86.0
Trading profit (£m)	5.4	6.6	9.6	4.2
In-force policies ('000s)	553	527	548	504

The Group has offered home insurance since September 2001 (shortly after the launch of the motor insurance business), but since 2008, and as part of the Group's strategy to place a greater focus on diversifying beyond motor insurance, its home underwriting business has grown significantly. The growth of the Group's home insurance business has also accelerated in part due to the significant growth in recent years of price comparison websites as a distribution channel for home insurance policies, together with the Group's own focus on (and experience in) the price comparison website channel.

As with its motor business, the Group targets home market segments with a statistically low underwriting risk profile, and has carried across the same underwriting, claims handling and anti-fraud discipline as it applies to its motor insurance business. The Group has also adopted the same multi-channel distribution strategy for its home insurance business, with particular emphasis on the price comparison website channel. While the price comparison website channel is not as dominant in the UK home insurance market as it is in the UK motor insurance market (with banks and building societies, as providers of mortgages and loans to homeowners, retaining a leading market share via other distribution channels), price comparison websites have gained a greater foothold in recent years.

As with motor insurance, the Group also generates revenues from its home insurance activities through Additional Services in three principal ways:

- **Additional Insurance Products**: these offer additional cover and protection over and above that offered by the core home insurance policy itself. The home Additional Insurance Products currently being offered by the Group comprise:

  (i) **Family Legal Protection**: covering legal fees incurred by household members in connection with pursuing disputes over purchased goods and services, employment contracts and disputes with neighbours, subject to certain limits. Launched in 2001.

  (ii) **Home Emergency Cover**: cover for the cost of emergency repairs such as broken central heating and blocked drains, subject to certain limits. Launched in 2003.

(iii) **Pest Cover**: cover for the cost of professional extermination or control of wasps, hornets, rats, mice and grey squirrels and for the treatment of bedbugs, subject to certain limits. Launched in 2005.

(iv) **Travel Insurance**: comprehensive annual multi-trip worldwide travel insurance cover for the family which will complement home insurance cover.

- **Instalment income**: this comprises interest income received from customers who choose to pay for home policies in monthly instalments rather than through a single premium payment at policy purchase.

- **Policy Administration Fees**: this comprises income received as a result of administration charges (for example, as a result of mid-term alterations to policy details by the policyholder) and cancellation charges.

All revenues and expenses relating to the home underwriting Additional Services are recognised in the "*Non-underwritten Additional Services*" segment.

Non-underwritten Additional Services

The Group generates income from non-underwritten Additional Services revenues. These products complement the core car and home insurance products.

The most material contributors to the non-underwritten Additional Services revenues segment are:

- instalment income;
- policy administration fees and other income;
- non-underwritten additional insurance products; and
- claims income.

Instalment income

Instalment income is interest charged to customers paying for their insurance policy in instalments, and is calculated as a percentage of the premium payable by the customer.

Policy administration fees and other income

Policy administration fees are administration charges (for example, as a result of mid-term alterations to policy details by the policyholder) and cancellation charges.

Non-underwritten additional insurance products

Non-underwritten additional insurance products represent the commission margins for the Group generated from sales of such products.

Claims income

Claims income comprises income generated by the Group fees generated from the appointment of firms used during the claims process, including medical and car hire suppliers (historically, the Group also generated fees from legal panel membership across the UK, which are now generated only from Scotland).

The table below provides the Group's trading profit from the non-underwritten Additional Services segment:

	HY 2014	HY 2013	FY 2013	FY 2012
Non-underwritten Additional Services (£m)	25.5	26.1	52.4	51.7

Investments

Investment income

The Group derives income from its investment portfolio. The Group deploys a conservative investment strategy with the primary objective of capital preservation. Consistent with the Group's conservative investment strategy, the duration of the fixed income funds is short at approximately one year (as at 30 June 2014); and the Group held 84 per cent. of its investments bearing credit risk and cash and cash equivalents in funds rated "A" and above as at 30 June 2014.

The table below provides the Group's trading profit from its investment portfolio:

	HY 2014	HY 2013	FY 2013	FY 2012
Investment income (£m)	7.6	7.5	14.7	39.4

Gocompare

The Group holds a 50 per cent. interest in Gocompare. gocompare.com is one of the top four price comparison websites, and offers a free online service to customers enabling them to search for and compare a range of products and services, including insurance, financial and travel products, as well as utilities and broadband services.

The table below provides the Group's trading profit from its share of Gocompare's profit:

	HY 2014	HY 2013	FY 2013	FY 2012
Share of Gocompare profit (gross of tax and amortisation) (£m)	5.4	6.7	12.9	12.3

Although the Group has appointed two non-executive directors to the board of Gocompare (out of a total of four directors), the Group does not control Gocompare and the Gocompare business is independent and operationally separate from the Group, and the Group's participation as a panel member of Gocompare is on strictly arm's length commercial terms.

8. Financial Information

A. Summary Financial Information

Group results for the period ended 30 June 2014

- Profit before tax up 0.4 per cent. to £57.1 million (HY 2013: £56.9 million)
- In-force policies up 2.1 per cent. to 1.974 million (FY 2013: 1.933 million)
- Gross written premiums down 1.9 per cent. to £260.4 million (HY 2013: £265.4 million)
- Combined operating ratio increased 1.3ppts to 90.9 per cent. (HY 2013: 89.6 per cent.) due primarily to the severe weather events in Q1
- Additional Services Revenues ("**ASR**") flat at £51.0 million (HY 2013: £51.0 million); ASR, excluding Claims Income, up 5.7 per cent. to £48.0 million (HY 2013: £45.4 million)
- Adjusted earnings per share[2] up 2.7 per cent. to 10.9 pence (HY 2013: 10.6 pence)
- Interim dividend per share of 5.1p (HY 2013: 2.5p), a payout ratio of 70 per cent. (HY 2013: 70 per cent.)
- Strong financial position with IGD coverage of 366 per cent., after allowing for the interim dividend.

B. Divisional Performance Highlights – Six Months Ended 30 June 2014

Motor

Motor gross written premiums were 1.9 per cent. lower at £217.9 million compared with the first half of 2013. The impact of the competitive rating environment on gross written premiums was partly offset by an increase in in-force policies. Trading profit was slightly lower at £17.1 million as the severe weather events in the first quarter of 2014 affected the result. The continued strong favourable development of prior accident year reserves has aided the delivery of a strong combined operating ratio at 91.7 per cent.

Home

Home gross written premiums were 2.3 per cent. lower at £42.5 million compared with the first half of 2013. As in motor, the impact of the competitive rating environment on gross written premiums was partly offset by an increase in in-force policies. Trading profit of £5.4 million was

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[2] Adjusted earnings per share is calculated as profit after tax divided by the number of ordinary shares in issue on Admission to the London Stock Exchange on 27 March 2013.

slightly lower than the first half of 2013, as the severe weather events in the first quarter of 2014 affected the result. The impact of the weather has been partly offset by the performance on other perils aiding a strong combined operating ratio performance of 86.9 per cent.

Non-underwritten Additional Services

Non-underwritten Additional Services is broadly flat year-on-year at £25.5 million. In 2013 the Group received £3.3 million of panel legal membership fees prior to the implementation of LASPO (LASPO has introduced the prohibition of payment or receipt of referral fees for claims involving personal injury). As such, the only legal membership fees which the Group generates now derive from Scotland. The reduction in this income was partly offset by the policy growth achieved in motor and home and the associated increase in income from non-underwritten Additional Services.

Investments

Investment income was broadly in line with the first half of 2013 at £7.6 million. The investment return in the first half of 2014 was 1.2 per cent. and the running yield, as at 30 June 2014, remains in line with the Group's target of 2 per cent. for the full year 2014.

The Group's share of profits from Gocompare reduced to £5.4 million reflecting an increased media spend in the first half of 2014.

C. Investments and Cash

Investment strategy

The Group deploys a conservative investment strategy with the primary objective of capital preservation.

The Group's Investment Committee, chaired by a Non-Executive Director, perform regular reviews of the strategy and the strategic asset allocations to ensure that it remains appropriate.

Investment and Cash Analysis

Investment holdings as at:

	As at 30 June 2014	As at 30 June 2013	As at 31 Dec 2013	As at 31 Dec 2012
	£m	£m	£m	£m
Financial investments designated at FVTPL......				
Shares and other variable-yield securities and units in unit trusts...............................	40.8	9.2	27.3	29.4
Debt securities and other fixed income securities................................	596.3	616.2	612.0	617.0
Deposits with credit institutions.................	72.3	68.0	99.8	132.4
Financial investments held for trading.........				
Derivative financial instruments................	0.6	0.1	2.1	0.4
Financial investments.....................	**710.0**	**693.5**	**741.2**	**779.2**

Cash and cash equivalents....................	20.4	40.4	27.6	39.4
Total financial investments and cash and cash equivalents.............................	**730.4**	**733.9**	**768.8**	**818.6**

The reduction in investments and cash and cash equivalents since 31 December 2013 is largely driven by the Group's payment of its 2013 final dividend. The Group's current asset allocation is in line with its strategic asset allocation which has resulted in an increase in the level of equity and yield enhancing assets held.

The current target strategic asset allocation for the portfolio is:

- Shares and other variable-yield securities – 5 per cent.
- Fixed Income – 80 per cent.
- Deposits with credit institutions and cash and cash equivalents – 15 per cent.

Cash flow

	HY 2014 £m	**HY 2013** £m	**FY 2013** £m	**FY 2012** £m
Profit after tax	**45.5**	**44.3**	**93.2**	**88.1**
Net cash generated from:				
Operating activities	51.6	92.4	88.8	45.1
Investing activities	(3.6)	2.1	3.5	4.0
Financing activities	(55.2)	(93.5)	(104.1)	(42.2)
Net (decrease)/increase in cash and cash equivalents	(7.2)	1.0	(11.8)	6.9
Cash and cash equivalents at the end of the period	**20.4**	**40.4**	**27.6**	**39.4**

The operating activities of the Group are highly cash generative. During 2013 the Group made a net reduction in its financial investments of £38.0 million and raised £50.0 m in proceeds from its Admission in 2013. These significant cash inflows, in addition to its operating activities, funded the £84.9 million repayment of capital instruments, £50.0 million repayment of Perpetual Subordinated Loan Notes (in relation to the Management Buy-out) and the Group's interim dividend of £10.4 million. In the first half of 2014, the Group paid £55.2 million in relation to its 2013 final dividend.

D. Capital

Capital Management

The Group maintains a capital structure consistent with the Group's risk profile and the regulatory and market requirements applicable to its business.

The Group's objectives in managing capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support business growth;
- To satisfy its obligations to policyholders and applicable regulatory requirements; and
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

The Group's capital resources consist solely of items that are eligible to be treated as capital for regulatory purposes. This includes equity, allowing for regulatory adjustments and mark to model based valuation of the Group's interest in Gocompare. Following the repayment of the Perpetual Subordinated Loan Notes in March 2013, none of the Group's capital is in the form of debt.

Solvency II

The Solvency II regime (the new EU regulatory framework for the prudential supervision of insurance companies, as described further in "*Regulatory Overview*") is scheduled for implementation on 1 January 2016 and will replace the current prudential regime for EEA insurers. However, as the Solvency II "Level 1" Directive will be implemented by means of both "Level 2" measures and "Level 3" guidance, many of which are currently in the process of being developed, there are remaining uncertainties around various specific details of the new regime, as well as the phasing of the implementation. The Group is focused on developing its business processes to reflect and further embed the Solvency II requirements, as currently articulated. This includes developing the Group's governance arrangements and framework for risk management, and developing internal and external reporting processes – in particular, the FLAOR (Forward Looking Assessment of Own Risks). The Group will continue to calculate its anticipated capital requirements under Solvency II, using the Solvency II standard formula approach (which will be the default approach for calculating Solvency Capital Requirements under Solvency II, to be used by insurers which are not using an approved Internal Economic Capital Model).

Insurance Groups Directive ("IGD")

The Group has a strong capital position and has an IGD coverage ratio of 366 per cent. as at 30 June 2014 (31 December 2013: 308 per cent.):

	HY 2014 £m	**FY 2013** £m	**Adjusted 2012*** £m	**FY 2012** £m
Statutory solvency capital				
Ordinary shareholders equity	265.3	274.2	190.2	231.1
Regulatory adjustments	65.3	61.4	56.3	56.3
Total Tier 1 Capital	**330.6**	**335.6**	**246.5**	**287.4**
Tier 2 Capital	-	-	-	50.0
Total regulatory capital resources	**330.6**	**335.6**	**246.5**	**337.4**
European Insurance Groups Directive (IGD)				
IGD required capital	84.5	90.9	96.4	96.4
IGD excess solvency	246.2	244.7	150.1	241.0

IGD coverage ratio	391%	369%	256%	350%
IGD coverage ratio, adjusting for the dividend	366%	308%	N/A	N/A

** The adjusted 2012 position assumes that the capital transactions undertaken by the Group on Admission occurred on 31 December 2012.*

While the Group is subject to group capital requirements established under the IGD, reflecting EU requirements for insurance groups, the insurance company within the Group, esure Insurance Limited, is also subject to solo capital requirements which are set out in Individual Capital Guidance ("**ICG**") from the PRA. This guidance is provided by the PRA on a periodic basis following the submission of a risk-based Individual Capital Assessment ("**ICA**") to the PRA by esure Insurance Limited. The ICA, and the PRA's ICG, reflect UK regulatory requirements and are typically greater than the Group capital requirements calculated in accordance with the IGD. As such, the ICG issued to esure Insurance Limited places a greater Regulatory Capital Requirement on the Group than the IGD calculation for the Group. Consequently, it is this higher capital requirement which is used by the Group in determining its risk-based capital requirements.

Both the solo capital requirements regime and the group capital requirements regime will be replaced by the requirements of the new Solvency II regime, which is due to be implemented on 1 January 2016. From implementation, the Group will calculate its likely capital requirements using the Solvency II standard formula approach. Modelling undertaken to date indicates that the Group's Solvency Capital Requirements under Solvency II are unlikely to be materially different from its capital requirements under the current regime.

Solvency Capital

Following the Acquisition, the Group's capital ratio under the current regime will improve as the Notes will qualify as lower tier II capital under Solvency I, up to a maximum value of 25 per cent. of the minimum capital requirement.

Under Solvency II, the Group's capital position will be strengthened following the Acquisition and issue of the Notes as tier II debt will be permitted as qualifying capital up to a maximum value of 50 per cent. of the solvency capital requirement.

9. Current Trading and Future Prospects

The Group's business strategy remains unchanged since 31 December 2013.

A trading update for the Group for the nine months to 30 September 2014 is below.

Financial Summary

- Total in-force policies increased 2.5 per cent. year-on-year and 1.1 per cent. year-to-date to 1.954m as at 30 September 2014 (Q2 2014: 1.974m, FY 2013: 1.933m, Q3 2013: 1.906m)

- Motor in-force policies are broadly flat year-to-date at 1.394m (Q2 2014: 1.421m, FY 2013: 1.385m), with Home in-force policies up 2.4 per cent. to 0.561m (Q2 2014: 0.553m, FY 2013: 0.548m)

- Gross written premiums year-to-date down 4.0 per cent. to £41.0 million (YTD Q3 2013: £427 million), Motor and Home down 4.5 per cent. and 1.3 per cent. respectively

- Gross written premiums for Q3 down 7.4 per cent. to £149.6 million (Q3 2013: £161.6 million), Motor down 8.8 per cent., with Home broadly flat

- ASR year-to-date broadly flat at £79 million (YTD Q3 2013: £79.3 million)

- ASR excluding Claims Income up 2.8 per cent. to £74.7 million (YTD Q3 2013: £72.7 million)

- The Group continues to set claims reserves on a prudent basis and, therefore, now expects the combined operating ratio for the full year to tick up towards 92%, assuming normal weather for the remainder of the year

- The financial position remains strong, with the Group remaining well capitalised and on track for the implementation of Solvency II

Business update

Motor in-force policies are broadly flat in the year as the Group continued to focus on underwriting discipline. This resulted in a reduction in Motor gross written premiums of 4.5 per cent. to £343.9 million. Risk selection remains a key focus of the Group and it continues to evolve its platform. The Group has launched a number of initiatives during the year as it looks to increase its "quote footprint" over the medium to long term.

During Q3, the market has seen an increase in small bodily injury claims as evidenced in the Ministry of Justice Claims Portal data; with the number of claim notification forms created and sent to a compensator in August and September up 15 per cent. and 20 per cent., respectively, compared with the equivalent months in 2013. The Group will monitor these developments carefully to see if they turn into longer term trends. See section 1.2 of the "Risk Factors".

The home rating environment remains competitive and this affected the Group's ability to grow gross written premiums in Home during the first nine months of the year, despite modest growth in in-force policies.

Customers are at the heart of the Business and during Q3 the Group launched an alternative business structure, in partnership with one of the UK's leading law firms, Irwin Mitchell, enhancing the customer experience for those unfortunate enough to be involved in an accident. See section 1.25 of the "Risk Factors".

10. Pricing

The pricing of premiums for new and renewal business is overseen by a multi-disciplinary pricing team, which meets at least weekly to review matters including premium levels, the risk

mix and Loss Ratios of the Group's in-force books, new and renewal business volumes, and market and general business trends.

Pricing levels are determined based on a wide range of data, both internal and external, which is analysed through the Group's internally developed risk and pricing models. The output of this analysis is used by the pricing team to make judgements regarding the risk weighting of the various factors within the rating algorithms that are ultimately used to generate premium quotes. The data used is continually refined and adapted to meet changing business needs and market trends.

A key part of the pricing process is the constant review of modelled and actual outcomes of business written (new and renewal), both at rating factor level and at segmental level. Regular updates of risk and pricing models and rating relativities are undertaken to ensure that the pricing team has an up-to date view of risk. This enables the pricing team to quickly identify opportunities and potential issues. The Group has a rating engine that enables changes to be made to the rating algorithm on a daily basis, when required. This enables the pricing team to reduce the time to market of pricing changes.

Rating and pricing flexibility allows separate consideration of new business and renewal pricing. In particular, pricing adjustments can be made in a highly targeted fashion on renewals by the application of premium loadings or discounts for individual policyholders. The Group's renewal retention sits between 75-80 per cent. across all lines of business. Renewal business benefits from an enhanced "no claims discount" scale that continues to increase beyond the five year scale commonly used elsewhere in the UK motor insurance market to reward customer loyalty and "claim free" driving.

In accordance with its "low risk" approach to underwriting, the Group maintains tight risk control by avoiding certain segments of the market altogether through the imposition of strict minimum acceptance criteria in the Group's policy application and quotation systems.

11. Claims Management

The Group's prudent reserving practice is supported by a speed of settlement philosophy within its claims function to ensure that claims are correctly paid in a timely manner and claims reserve provisions are made on a case-by-case basis (and updated as soon as further information is known) to better reflect the Group's potential future liabilities.

The Group's internal claims management personnel undertake all aspects of claims handling from the first notification of a claim through to settlement. They are supported with a carefully selected panel of external providers who may be engaged during the course of the claim – from solicitors, loss adjusters and specialist investigation experts through to a range of household goods and building services suppliers. However, claims management is considered by the Group to be a core competency and, as such, the Group does not generally outsource or delegate claims under policies that it has underwritten to third party providers in either the UK or offshore.

Part of the Group's claims philosophy is to have well-resourced and specialised staff who have the benefit of working with the latest technology to manage and prioritise the inbound flow of correspondence relating to claims. This allows the Group's claims management personnel to

respond promptly and accurately to policyholders and other claimants to ensure that high levels of customer service are maintained, contributing to rapid settlement rates.

The Group has recently implemented an enhanced, in-house designed, claims imaging workflow management system which is expected to increase productivity and to deliver savings in claims costs. For example, the workflow engine will link directly and seamlessly to the online portal used for communications between claimants and defendants in the course of Road Traffic Accident Protocol claims. This will assist in ensuring that the tight timescales within the protocol are adhered to and will provide a rich source of management information about claims processes, procedures and participants.

In addition, the Group's focus on anti-fraud procedures extends beyond claims detection in the claims process to areas of fraud prevention. The Group is a member of (and sits on the Technical Board of) the UK Insurance Fraud Bureau. It is also a member of CIFAS (operator of the UK's National Fraud Database), and works actively with the Insurance Fraud Enforcement Department of the City of London Police. The Group also has a track record of both leadership and early adoption of fraud prevention tools:

- it was the first UK insurance group to implement the SIRA fraud detection system, which is used extensively in both the underwriting and the claims functions;

- it was one of the first UK insurance groups to use Digilog Voice Stress Analysis screening to highlight potential inconsistencies in the claims verification process; and

- it was the first UK insurer to use contempt of court to prosecute a participant in a staged accident, creating a landmark judgment.

12. Reserving

The Group holds claims reserves, to cover the future cost of settling claims that have occurred prior to and at the balance sheet date, whether already known to the Group or not yet reported, net of associated reinsurance recoveries. The Group's reserves are assessed by an internal actuarial function and independently benchmarked by an external third party.

The ultimate costs and expenses of the claims for which these reserves are held are subject to a number of material uncertainties. As time passes between the reporting of a claim and the final settlement of the claim, circumstances can change that may require established reserves to be adjusted either upwards or downwards. Factors such as changes in the legal environment, results of litigation, propensity of personal injury claims, changes in medical and care costs, and costs of vehicle and home repairs can all substantially impact overall costs and expenses of claims, and cause a material divergence from the bases and assumptions on which the reserves were calculated. These factors can cause actual developments to vary materially from the projections and assumptions on which the Group's technical reserves were calculated.

Given this uncertainty, the Group looks to maintain a consistent and prudent reserving philosophy and the Group has always established its Claims Outstanding Reserves and Incurred But Not Reported ("**IBNR**") Reserves at a prudent level in excess of a 'best estimate' level determined through standard actuarial techniques.

This prudent approach to reserving has meant that the Group has historically experienced favourable development in its claims reserves over time as claims have ultimately settled at a lower cost than initially calculated for the purposes of its booked Claims Outstanding Reserves and IBNR Reserves.

The amount of the Group's Claims Outstanding Reserves and IBNR Reserves, net of outward reinsurance, salvage and subrogation, together with the related reserve in respect of the requirement for claims handling expenses, is comfortably in excess of an actuarial best estimate, as at 30 June 2014.

13. Reinsurance

The Group purchases reinsurance as a risk transfer mechanism to remove risks that are outside the Group's appetite for individual claim or event exposure and to reduce the volatility caused by large individual and accumulation losses. The Group purchases a low level of retention, which protects against claims volatility and PPOs. By doing so the Group protects its capital and the underwriting result of each line of business.

Currently the Group has in place non-proportional excess of loss reinsurance programmes for its motor and home underwriting activities. These cover both individual large losses and accumulation losses arising from natural and other catastrophe events. Motor reinsurance treaties are in place covering all years in which the Group has underwritten motor policies. At the present time the Group has no quota share reinsurance or co-insurance arrangements in place.

The Group's reinsurance programmes are reviewed on an annual basis and capital modelling is used to identify the most appropriate structure and risk retention profile, taking into account the Group's business objective of minimising volatility and the prevailing cost and availability of reinsurance in the market. The Group engages Aon Benfield to provide advice and guidance, and to place the Group's reinsurance programmes in the market at the best possible rates.

Counterparty credit risk is a key consideration when the Group enters into reinsurance treaties. The minimum credit rating that the Group requires for participation in its reinsurance programmes is Standard & Poor's A- or the A.M. Best equivalent, and there are internal policies on the level of ceded premium by credit rating, and also for reinsurers in the same corporate group or otherwise linked.

Standard & Poor's (full legal name: Standard & Poor's Credit Market Services Europe Limited) and A.M. Best (full legal name: A.M. Best Europe – Rating Services Limited) are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 and each of them is, as at the date of this document, included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. The credit ratings of the Group's reinsurers are actively monitored for any deterioration in outlook or rating, and the Group has the option of removing a reinsurer from its property risk and catastrophe reinsurance treaties if their credit rating falls below the minimum requirement.

14. Risk Management

The Board has set a robust risk management strategy and framework as an integral element in its pursuit of business objectives and in the fulfilment of its obligations to all stakeholders – policyholders, shareholders, regulators and staff.

The strategy is designed to evaluate all risks facing the Group, although the nature of the Group's business model creates inherent exposure in particular to insurance (underwriting), market and operational risks.

The fundamental objectives of the Group's approach to risk management are to identify, manage and mitigate the internal and external threats to the achievement of business objectives and to the stability of earnings; to allocate capital and resources efficiently so as to optimise the balance of risk and reward; to ensure compliance with all applicable laws and regulations and to ensure the fair and equitable treatment of customers.

The Group's risk management framework is organised around the core elements of risk governance and risk appetite and reporting, with the latter incorporating a risk-based approach to strategic and business planning and capital management.

Risk Governance

The Board is responsible for prudent oversight of the Group's business and financial operations, ensuring that they are conducted in accordance with sound business principles, with applicable law and regulation and in accordance with recognised good practice. This oversight encompasses a responsibility to articulate and monitor adherence to quantifiable and measurable statements of the Board's appetite for exposure to all risk types. The Board also ensures that measures are in place to provide independent and objective assurance on the effective identification and management of risk and on the effectiveness of the controls in place to mitigate those risks.

This independence and objectivity is achieved through two committees of the Board, composed only of independent Non-Executive Directors:

- the Audit Committee: responsible for review of the effectiveness of the Group's internal controls and of the assurance processes, based on reports from functions which are themselves independent: Internal Audit, Risk Management and Compliance; and

- the Risk Committee: responsible for oversight of the Group's risk and control management framework, including the composition and performance of the risk management function and of adherence to the Board's stated risk strategy and appetite.

The Board has also delegated authority to other committees of the Board addressing specific aspects of prudent management:

- the Nomination Committee: responsible for reviewing the size, structure and composition of the Board and ensuring that the Board comprises the right balance of skills, knowledge and experience, and making recommendations about any adjustments considered necessary;

- the Remuneration Committee: responsible for determining the terms and conditions of employment, remuneration and benefits of each of the Chairman, executive directors, senior executives and other members of the executive (senior management);

- the Investment Committee: responsible for reviewing the performances of the outsourced investment managers and ensuring that there are effective investment policies and strategies in place and ensuring that the investment guidelines of the Group reflect the Board's risk appetite; and

- the Disclosure Committee: responsible for reviewing all significant announcements for accuracy and compliance requirements.

The risk strategy, framework and appetite are articulated in a suite of policies covering all risk types and supported by detailed procedural documents. Each of these documents is subject to annual review and approval by the Board.

The senior management of the Group are responsible for the day-to-day management of the business operations of the Group and for ensuring that the risk and control strategy, framework and culture are understood and observed at every level of the organisation. A separate executive risk committee, meeting monthly, follows an exclusively risk-based agenda to ensure continuous adherence to the established principles and in particular to ensure that any variance from risk appetite or control standards is identified, evaluated and remediated promptly.

The executive risk committee also receives updates from specialist executive committees established to ensure regular review and evaluation of specific aspects of the Group's business operations:

- pricing committee;
- insurance risk committee;
- reserving committee;
- financial crime governance group; and
- customer response action group.

The Group's risk governance is underpinned by a risk management function headed by the CRO, a member of senior management reporting to the Chief Executive Officer but with independence assured through direct and independent access to the chairman of the Audit Committee and the Risk Committee.

Either the CRO or another senior management representative from the risk function is in attendance at all of the specialist executive risk committees. The CRO also attends the meetings of the Board's Audit Committee, Risk Committee and Investment Committee, in addition to Board meetings themselves, on a regular basis.

In accordance with recognised good practice, the Group operates a 'three lines of defence' governance framework, with the operational business area in the first line, responsible for day-to-day management of risks and controls. The risk management function and an associated regulatory risk and compliance function sit in the second line, responsible for the maintenance of the risk management framework, for the independent oversight and challenge of the Business' assessment and reporting of risk exposures within that framework and for

independent and objective reporting of risk exposures. The third line is provided by an independent internal audit function.

The risk management function also provides independent oversight and validation of the performance of the internal model used to calculate regulatory and economic capital requirements based on the Group's risk exposures (the "**Internal Model**").

The critical importance of effective management of insurance risk to the survival of the Group's business model is recognised through:

- separate executive positions for the Chief Underwriting Officer and Head of Claims, responsible for separate underwriting and claims management functions, overseen by the Chief Operating Officer;

- an actuarial function responsible for, *inter alia* actuarial best estimate reserve reviews, calculation of the technical provisions, informing senior management of the reliability and adequacy of the calculation of the Group's technical provisions, and of estimate parameters for use in the Internal Model. An independent third party also carries out independent reviews at the half-year and full-year stages;

- separate in-house underwriting and claims functions;

- an executive pricing committee chaired by the Chief Underwriting Officer, charged with monitoring the key performance indicators affecting pricing and profitability of the Group's core underwritten products, reviewing existing and proposed reinsurance arrangements and approving the assumptions underpinning the pricing models, seeking independent assurance where appropriate; and

- an executive reserving committee, chaired by the Chief Finance Officer, charged with approving the results of both internal and external reserving reviews, agreeing the Company's policy and approach for reserving and providing independent oversight and approval for the key underwriting risk inputs to and outputs from the Internal Model.

Risk reporting

The risk management framework is designed to ensure that the Board and the Group's various risk committees can receive timely and appropriate reporting on the Group's exposure to existing and emerging risks in each of the core risk categories – insurance (underwriting), market, counterparty credit, operational and liquidity risk. Strategic risks and the reputational consequences of other risk exposures are considered alongside this risk reporting.

In order to set boundaries to the acceptance of risk exposures, the Board have set out a Group risk appetite statement, incorporating a range of quantitative measures of risk appetite, expressed as tolerances against which the actual or planned exposures can be monitored. This monitoring will be reflected in regular reporting to both the executive risk committee and the Board's Risk Committee.

Such reporting is supported, *inter alia*, by: quarterly updates to the Group's risk registers covering current and emerging risks; reports on events that have resulted in actual or potential financial or reputational losses to the Group's customers; the results of stress, scenario and

sensitivity testing and the findings, recommendations and management actions arising from reviews conducted by the compliance and internal audit functions.

A key strand of the Group's risk management strategy is the integration of risk assessment and evaluation into the Group's business planning and capital management processes. The Group's Internal Model has been used for several years both to calculate the Group's view of the capital required to protect the business and to provide decision support for such exercises as the annual reinsurance renewals. The Group is further enhancing the Internal Model ultimately to meet Solvency II requirements, but more immediately to inform improved decision support and depth to the Group's risk reporting, particularly in assessing ranges of possible outcomes.

To bring a number of strands of integrated risk reporting together, the Group has adopted the Solvency II terminology 'Own Risk & Solvency Assessment' (ORSA (otherwise known as FLAOR)) and will produce a report, prepared by the risk management function, incorporating at least: an assessment of the regulatory and economic capital that the Group requires to support its business operations and a commentary on the Group's risk exposure profile and control environment and on any actual or anticipated changes which might breach the Group's risk appetite or solvency position.

15. Employees

The average number of employees, including Directors, and excluding temporary employees and contactors, during each period was:

	Six months ended 30 June 2014	Year ended 31 Dec 2013	Year ended 31 Dec 2012
Operations......................	1,223	1,191	1,192
Support........................	387	374	346
Total average number of employees...	**1,610**	**1,565**	**1,538**

The Group's primary asset is its people. The service the Group provides to its customers rests in the hands of the employees and is improved when they are engaged and motivated. This starts with the Group's recruitment approach and the environment, rewards, training and policies offered to employees in making the Group a great place to work.

The Group recognises and rewards its employees with a wide range of benefits and initiatives that include: a performance and Group award scheme for management, a Profit Share scheme for all other eligible staff, a Sharesave scheme, Childcare Vouchers, subsidised cafes, interest-free season ticket loans, flexible working practices, long service awards for staff and dress-down days for charities.

Communication is also at the heart of its engagement. Stuart Vann, CEO, along with other members of the executive team, carry out face-to-face staff briefings and 'Q&A' sessions at least twice a year, plus other Q&A lunches in-between. The Group maintains an intranet news system to keep staff informed, providing access to all its policies and key documentation.

16. Information Technology Infrastructure

With approximately 90 per cent. of the Group's new policies being originated online, the Group's information technology infrastructure and systems underpin the Business. As such, the Group strives to ensure that its information technology infrastructure and systems are kept up to date with evolving technology and meet the requirements and needs of the Group's staff and customers.

The availability and performance of all the Group's core information technology systems, including the primary insurance administration system ("**TIA**"), has historically been strong and capacity has been managed well within industry standards. The Group's systems architecture is based on an Oracle/Unix platform, with TIA as the core insurance administration application and interaction with price comparison websites is managed through web services.

The Group's business continuity and disaster recovery arrangements are managed centrally, with work area recovery sites provisioned through an agreement with Sungard.

The security of the Group's systems is regarded by the Group as being of paramount importance. As a result, an internal information technology security team is responsible for and monitors all related activities. To date, no material information technology security breaches have occurred to the Group's systems.

The Group has recently implemented a major enhancement to its claims system comprising scanning/imaging, process optimisation, a new business rules platform and enhanced management information capability.

The Group has undertaken a full replacement, outsourcing and centralisation of its Windows platform; upgrading to contemporary versions of operating software and associated applications. In addition, the Group recently renewed its contract with CapGemini, which takes effect following a systems transformation programme (replatforming and migration of esure's IT systems to new CapGemini data centres). The current agreement for operational services will continue until the programme is completed (planned for Q1 2016).

17. Intellectual Property

The Group holds a portfolio of registered UK and European trade marks which protect the names and logos of the *esure, Sheilas' Wheels* and *First Alternative* brands along with some related slogans.

The Group actively protects its trade mark portfolio and instructs its trade mark attorneys to operate a watch service to identify applications for similar trade marks. The Group regularly takes action to oppose the registration of similar trade marks and to enforce its rights against third party infringers.

While other branding materials such as slogans, logos, colours and designs are not registered, some protection may be afforded by unregistered design rights, unregistered trade marks and copyright. The Group does not own any patents.

The key websites for the Group's brands all have current domain name registrations held by or on behalf of the Group. Registrations for a number of domain names which are similar to the

names of the Group's key websites or are related to advertising campaigns undertaken by the Group are also held by or on behalf of the Group.

Customer databases created internally are owned by the Group.

There are currently no outstanding intellectual property infringement actions involving any member of the Group as defendant or any charges over any intellectual property rights held by the Group.

18. Management

Directors of the Issuer

The Directors and their principal functions within the Issuer, together with a brief description of their business experience and principal business activities outside the Issuer, are set out below. The business address of each of the Directors (in such capacity) is The Observatory, Castlefield Road, Reigate, Surrey RH2 0SG.

Peter Wood
Chairman

Peter Wood founded the Group in February 2000. Peter has served as the Group's Chairman since February 2000 and was the Group's Chief Executive Officer from 2006 until 2012. Peter chairs the Nomination Committee and is a member of the Disclosure Committee.

Previously, Peter founded Direct Line insurance in 1985, retiring as Chairman in 1997. Peter also founded Privilege Insurance with Royal Bank of Scotland, together with two other insurance companies in the U.S. and one in Spain.

Peter is Chairman of Royalton Group Limited. He was a non-executive director of Centrica plc from 1996 to 2000; he was a non-executive director of the Economist Group from 1998 to 2004.

In 1996, Peter received the honour of Commander of the British Empire in recognition of his services to the UK financial services industry.

Stuart Vann
Chief Executive Officer

Stuart was appointed to the Board in September 2011 and became Chief Executive Officer in February 2012. Stuart joined the Company in 2000 and has held various roles including Head of Insurance Risk and Acquisition and Chief Operating Officer. Stuart is a member of the Investment and Disclosure Committees. He is a qualified accountant, with close to two decades of experience in the sector.

Stuart led the Group's response to the personal injury claims phenomenon and has been the driving force behind the Group's earnings diversification strategy.

He is a member of the ABI's General Insurance Council and also a member of the Worshipful Company of Insurers.

Darren Ogden
Chief Finance Officer

Darren joined esure in 2003. He was promoted to the position of Head of Finance in 2007 and was appointed to the Board as Chief Finance Officer in November 2012. Darren is a member of the Investment and Disclosure Committees.

Darren is a qualified accountant with over 20 years' experience of working within the insurance industry. He spent 13 years at Legal & General, primarily in the general insurance division.

Dame Helen Alexander
Deputy Chairman and Senior Independent Director

Dame Helen joined the Board in December 2011. Dame Helen Alexander is chairman of UBM plc, the Port of London Authority (PLA) and Incisive Media. Dame Helen chairs the Remuneration Committee and is also a member of the Nomination Committee. She is also deputy chairman of esure Group Holdings, a non-executive director of Rolls-Royce Group plc, and senior adviser to Bain Capital.

Dame Helen was CEO of the Economist Group until 2008 and president of the Confederation of British Industry (CBI) until June 2011.

Dame Helen is Chancellor of the University of Southampton and is currently involved with other not-for-profit organisations in media, the arts and education.

Dame Helen chairs the Remuneration Committee and is a member of the Nomination Committee.

María Dolores
Non-Executive Director

María was appointed to the Board as a Non-Executive Director in December 2013.
She is the Chief Executive Officer and Managing Director of Bankinter SA, a leading Spanish bank known for its leadership in technology and prudent lending practices. She was previously CEO and Managing Director of Linea Directa Aseguradora in Spain, the third largest Spanish motor insurer.

María has received several awards in her business career, including being awarded the Aster-Esic Prize for "Outstanding Career Achievement" and "Financial Executive of the Year" from Ecofin magazine; nominated as an "Influential Woman" in the list of the Top 100 Spanish Women Leaders; awarded "Best Executive of the Year" in 2010 by FEDEPE. She was also nominated "Best CEO in Spanish enterprises" in 2014 by Forbes magazine.

Maria is a member of the Nomination Committee.

Mike Evans
Non-Executive Director

Mike was appointed to the Board as a Non-Executive Director in June 2013. He is also Chairman of Hargreaves Lansdown plc, Chairman of Zoopla Property Group plc and a non-

executive director of Chesnara plc. Mike, who is a qualified actuary, is also a member of the advisory board of Spectrum Corporate Finance and is a Trustee of Wessex Heartbeat. Mike was formerly Chief Operating Officer at Skandia UK Limited.

Mike is a member of the Risk, Remuneration and Audit Committees.

Shirley Garrood
Non-Executive Director

Shirley was appointed to the Board in July 2013. She is also a non-executive director of Hargreaves Lansdown plc and a governor of the Peabody Trust.

Shirley is a Chartered Accountant and Corporate Treasurer, having trained with KPMG. She was appointed Chief Operating Officer of Henderson Group plc in 2001 and then Chief Financial Officer from 2009 until 2013. Shirley was an executive director at Morley Fund Management (Aviva) from 1998 to 2001 and also Chief Operating Officer from 2000 to 2001.

Shirley is the chair of the Audit Committee and a member of the Remuneration and Investment Committees.

Anthony Hobson
Non-Executive Director

Anthony has been a Non-Executive Director since September 2003. He is the Senior Independent Director of Dyson James Group Limited and Chairman of Changing Faces, the leading UK disfigurement charity.

Anthony was Group Finance Director of Legal & General Group plc from 1987 to 2001. He is a Chartered Accountant and holds an MBA from the Darden Graduate Business School.
He was Chairman of The Sage Group plc from 2007 to 2012 and of Northern Foods plc from 2005 to 2011; and he has held a range of non-executive director roles including Thames Water plc, Glas Cymru, HBOS plc, JLT Group plc and Cenkos Securities plc.

Anthony chairs the Investment Committee and is also a member of the Audit, Risk, Remuneration and Nomination Committees.

Anne Richards
Non-Executive Director

Anne was appointed to the Board in November 2012.

She is a director and Chief Investment Officer and Head of the EMEA region for Aberdeen Asset Management PLC. Her career has included research analysis, portfolio management and global asset allocation and includes time with JP Morgan and Mercury Asset Management, later Merrill Lynch Investment Managers.

Anne is a non-executive director with the CERN & Society Foundation, the University of Edinburgh and the Duchy of Lancaster, and is a member of the FCA Practitioner Panel. She is a Chartered Engineer, a Fellow of the Chartered Institute for Securities and Investment, a Fellow of the CFA Institute (UK) and holds a Certified Diploma in Accounting and Finance (ACCA).

Anne is a member of the Audit, Risk and Investment Committees.

Peter Ward
Non-Executive Director

Peter was appointed to the Board as a Non-Executive Director in 2001. Peter is an actuary who spent his career in insurance working for Commercial Union in Australia, South Africa and the UK. In 1994, Peter was appointed as a group executive director of Commercial Union plc, a position from which he retired in 2000. Peter is a Fellow of the Institute of Actuaries and of the Chartered Insurance Institute, a Past President of the Insurance Institute of London and a Past Master of The Worshipful Company of Insurers.

Peter chairs the Risk Committee and is also a member of the Audit, Remuneration and Investment Committees.

Conflicts of interest

There are no conflicts of interest between the duties of the Directors listed above to the Issuer and their private interests or other duties.

Regulatory Overview

The Group's direct insurance and insurance mediation businesses are primarily subject to the laws of the constituent parts of the UK and also regulation imposed by or under FSMA. The Group's principal subsidiary, esure Insurance Limited, is authorised and regulated under FSMA as an insurance company; esure Services Limited is authorised and regulated under FSMA as an insurance intermediary; and esure Broker Limited is currently registered, pursuant to FSMA, as an appointed representative of esure Services Limited, providing insurance mediation services on behalf of its principal firm. The UK regulatory regime also applies to Gocompare, which is authorised and regulated under FSMA as an insurance intermediary. The authorised Group entities mentioned above also hold interim variations of permissions in respect of certain consumer credit-related regulated activities.

FSMA confers on the FCA and the PRA broad supervisory powers over many aspects of the Group's insurance business, each of which has the potential to affect, among other things, the Group's marketing and selling practices, advertising, product development structures, premium rates, policy forms, claims and complaint handling practices, data and records management, systems and controls, controlled function holders, capital adequacy and permitted investments.

The following discussion considers the main features of the UK regulatory regime for insurance businesses as it applies to the Group.

Regulation by the PRA and the FCA

Prior to 1 April 2013, insurance companies in the UK were authorised and regulated by the FSA (the predecessor to the FCA and the PRA). The FSA has now been abolished and its responsibilities reallocated in modified form between two new regulatory authorities, the FCA and the PRA. As a result, insurance companies in the UK are dual-regulated, which means that they are authorised, prudentially regulated and supervised by the PRA, and regulated for conduct of business purposes by the FCA. Companies which carry on insurance mediation activities are authorised, supervised and regulated for both prudential and conduct of business purposes by the FCA.

The PRA is a subsidiary of the Bank of England, and is responsible for the micro-prudential regulation of insurance companies, banks and certain large investment firms. The PRA's primary purpose and objective is to promote financial stability. It also has a specific "insurance objective" of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders of PRA-authorised insurers.

The FCA regulates the conduct of every authorised firm. Its "operational objectives" are to protect and enhance confidence in the UK financial system by protecting consumers, to enhance the integrity of financial markets and to promote effective competition in the interests of consumers. The FCA also has a "strategic objective" of ensuring that relevant markets function well.

The Financial Policy Committee, a body that operates within the Bank of England, is responsible for the macro-prudential regulation of the entire financial services sector but does not supervise individual firms.

Under the new regime, the PRA has powers that can be applied directly to "qualifying parent undertakings" where those parent undertakings are not themselves regulated. These could potentially be applied to the Company, given that it has a PRA-authorised subsidiary. Further, the FCA has new early intervention powers which enable it to intervene directly in the market and make product intervention rules with the aim of preventing harm to consumers (for example, the FCA could make rules to restrict the Group's promotion of a particular product to certain types of consumers).

Authorisation to carry on regulated activities in the UK

Subject to certain exemptions provided in FSMA, no person may carry on a regulated activity in the UK unless appropriately authorised to do so by the FCA or the PRA (as applicable) under Part 4A of FSMA (a "**Part 4A Permission**"). Regulated activities include the activity of effecting or carrying out contracts of insurance (referred to in this "*Regulatory Overview*" section as carrying on the business of an "**insurance company**"), for which the PRA is the appropriate regulator, and insurance mediation activities, including dealing as agent, arranging, advising on deals, or assisting in administration and performance in relation to a contract of insurance (referred to in this "*Regulatory Overview*" section as carrying on the business of an "**insurance intermediary**"), for which the FCA is the appropriate regulator. Exemptions under FSMA include, in respect of insurance mediation activities, an exemption for appointed representatives who have been validly appointed.

In order to grant a Part 4A Permission, the appropriate regulator must determine that the applicant meets the requirements of FSMA, including certain "threshold conditions". The threshold conditions are the minimum conditions which must be satisfied (both at the time of authorisation, and on an ongoing basis) in order for a firm to gain and continue to have permission to carry on the relevant regulated activities under FSMA. Dual-regulated firms must meet both the PRA and the FCA threshold conditions. These relate to matters including the applicant's legal form, whether the applicant has adequate resources (both financial and non-financial) to carry on its business and whether, having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently), the applicant is a fit and proper person to conduct the relevant regulated activities.

The Part 4A Permission contains a description of the activities that an authorised firm is permitted to carry on. When granting a Part 4A Permission, the appropriate regulator may impose such limitations and requirements as it considers appropriate.

Once authorised, in addition to continuing to meet the threshold conditions, firms must comply with the high-level FCA Principles for Businesses and, where applicable, the PRA's Fundamental Rules, as well as other rules in the PRA Handbook and the FCA Handbook, as introduced below.

The FCA and PRA Handbooks

The standards that the FCA requires firms to maintain are set out in the FCA Handbook. The PRA Handbook sets out the PRA's rules, which focus on prudential matters. The PRA has started to move away from the legacy rules and guidance that it inherited from the FSA, towards a PRA Rulebook, and PRA-authorised firms are currently required to refer to both the legacy rules and guidance in the PRA Handbook (where still in force) and the new PRA Rulebook while this transition is underway.

The FCA Handbook and the PRA Handbook each comprise a number of sourcebooks which set out the rules which apply to the firms that they respectively regulate and supervise. Rules and ongoing requirements applicable to FCA-authorised firms are contained in the FCA Handbook only.

The most relevant sourcebooks (and parts thereof) for the Group's subsidiaries undertaking FSMA regulated insurance business and insurance mediation business are currently the Senior Management Arrangements, Systems and Controls Sourcebook ("**SYSC**"); the General Prudential Sourcebook ("**GENPRU**"), the Prudential Sourcebook for Insurers ("**INSPRU**") and the Interim Prudential Sourcebook for Insurers ("**IPRU (INS)**"), which together contain prudential rules; the Conduct of Business Sourcebook ("**COBS**") and the Insurance: (Conduct of Business) Sourcebook ("**ICOBS**"), which contain certain conduct of business requirements; and the Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries ("**MIPRU**"), which is relevant for insurance intermediaries. The Consumer Credit sourcebook ("**CONC**"), which also contains conduct of business requirements, is relevant to the Group's consumer credit-related regulated activities.

Conduct of business rules

The COBS and ICOBS rules apply to every authorised firm carrying on the regulated activities to which they relate. These rules regulate the day-to-day conduct of business standards to be observed by authorised firms in carrying on those regulated activities.

The scope and range of obligations imposed on an authorised firm under the COBS and ICOBS rules vary according to the scope of the firm's business and the nature of its clients. Generally speaking, however, the obligations imposed on an authorised firm by the COBS and ICOBS rules will include the need to provide clients with information about the firm, meet certain standards of product disclosure, ensure that promotional materials which it produces are clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets. These sourcebooks implement the Insurance Mediation Directive ("**IMD**") in the UK, which is currently under review by EU legislative bodies.

CONC sets out the conduct of business requirements for firms carrying on consumer credit activities. Many of the provisions in CONC carry forward repealed provisions of the Consumer Credit Act 1974 (as amended) ("**CCA**") and Office of Fair Trading ("**OFT**") guidance. The Group's consumer credit-related regulated activities are also subject to the retained provisions of the CCA, which include, for example, pre and post-contractual obligations, such as requirements to ensure that documentation complies with prescribed form and content specifications.

In addition, esure Insurance Limited is a member of the ABI. The ABI is a trade association that issues non-binding guidance relevant to insurance firms, including a good practice guide for firms offering insurance online to consumers and a code of practice for assisting third parties who have been in an accident with the insurer's policyholder.

Prudential standards

It is a fundamental requirement of the PRA's prudential rules that PRA-authorised firms maintain adequate financial resources. This requirement and the obligation for an insurance company

(but not an insurance intermediary) to carry out a risk-based assessment of its own capital requirements are contained in GENPRU. Rules relating to the calculation of capital resources by an insurance intermediary are contained in MIPRU. Provisions relating to the requirement to manage risks in general and details relating to the management of particular types of risk are set out in INSPRU and SYSC. The rules in SYSC also require a firm's senior managers to ensure that, among other things: (i) their firm's employees have suitable skills, knowledge and expertise; and (ii) their firm has in place appropriate compliance, record keeping and audit systems.

Treating Customers Fairly

The TCF initiative was introduced as part of the FSA's principles-based approach to regulation and derives from Principle 6 of the Principles for Businesses (that a firm must pay due regard to the interests of its customers and treat them fairly). This remains an important priority of the FCA. The emphasis of this initiative is on achieving fair outcomes for customers.

The FCA 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.

The Approved Persons regime

An authorised firm is required to obtain approval from the appropriate regulator for any individual who carries on any specific "controlled function", such as, for example, executive and non-executive directors and persons responsible for risk management, internal audit or compliance. These individuals are known as "Approved Persons" and must comply with a set of principles which largely mirror the FCA's Principles for Businesses.

The FCA or the PRA will only approve an individual to undertake a controlled function if that individual is assessed to be a fit and proper person. In particular, the relevant regulator 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 their financial soundness. If an individual is applying for approval to perform a "significant influence function" (which, broadly, includes controlled functions relating to key management, compliance and operational roles), the appropriate regulator's assessment of the applicant's fitness and propriety often involves an interview of the applicant.

There are a number of ongoing initiatives, at both UK and EU level, that are likely to result in the FCA and PRA making significant changes to the Approved Persons regime in the next few years. In particular, the PRA and the FCA currently are consulting on a new senior managers' regime for insurers and complementary changes to the approved persons regime for Solvency II firms, as described further under "*Recent and future developments*", below.

Change of control of authorised firms

Under the FSMA change of control regime, a person who has decided to acquire or increase its "control" over a UK firm authorised and regulated under FSMA is required to notify the appropriate regulator of that decision and to receive approval from the appropriate regulator before becoming a "controller" or increasing its interest in such a firm to or above certain

thresholds. A person must also notify the appropriate regulator when the transaction which results in that increase takes place. Any acquisition of control over the Company would be subject to this regime.

A proposed "controller" for the purposes of the controller regime is any natural or legal person (or such persons "acting in concert") who decides to acquire or increase, directly or indirectly, their control over a UK authorised firm (including a UK insurance company or insurance intermediary).

"Control" over a UK authorised firm is acquired if the acquirer:

- holds 10 per cent. or more (20 per cent. or more if the authorised firm is an insurance intermediary) of the shares or voting rights in that company or in its parent undertaking; or

- is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in the company or its parent undertaking.

Increases in control of an insurance company require the consent of the PRA where they reach thresholds of 20, 30 and 50 per cent. of the shares or voting power in the firm or its parent. Increases in control of an insurance intermediary beyond the 20 per cent. threshold do not require the consent of the FCA. Reducing or proposing to reduce control below the relevant threshold also gives rise to an obligation to notify the appropriate regulator.

Breach of the notification and approval regime imposed by FSMA on controllers is a criminal offence.

Regulatory capital for insurance companies

Rules currently in force in the UK (in large part implementing EU insurance directives) require general insurance firms (such as esure Insurance Limited) to maintain capital resources equal to, or in excess of, their applicable minimum level of capital (the "**Minimum Capital Requirement**" or "**MCR**"). Detailed rules in GENPRU and INSPRU define how to calculate the capital resources requirement and what constitutes capital for these purposes.

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

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

Rules currently in the PRA Handbook require a firm to calculate its capital requirements through its own risk assessment (known as an "**individual capital assessment**" or "**ICA**"). If the PRA disagrees with a firm's ICA, it may draw up its own Individual Capital Guidance ("**ICG**") for the

firm, which it will provide to the firm on a confidential basis. An ICG can ultimately be imposed as a requirement on the scope of a firm's permissions.

Insurance companies (along with banks, building societies and certain investment firms) are required to undertake reverse stress testing. Reverse stress testing requires firms to work backwards from an assumed point of business model failure, to identify the stress scenarios that could result in such adverse outcomes. Each firm must then consider whether the likelihood of these scenarios, taking into account likely management actions, is consistent with its risk appetite and, if not, the firm must initiate actions to address any inconsistencies.

The current regulatory capital regime for insurance companies is due to be replaced by the new Solvency II regime from 1 January 2016. The new regime is described further under "*Recent and future developments*", below.

Solvency requirements for insurance intermediaries

The rules in MIPRU require senior managers and directors to take responsibility for an insurance intermediary's affairs, and include a general solvency requirement and a requirement to maintain capital resources calculated in accordance with the rules and guidance in MIPRU.

Supervision and enforcement

Supervision

The PRA has wide powers to supervise, and intervene in, the affairs of an insurance company under FSMA. It can, for instance, require firms to provide particular information or documents to it, require the production of a report by a "skilled person" appointed by the firm or by the PRA, or formally investigate a firm.

The nature and extent of the PRA's supervisory relationship with a firm depends on how much of a risk the PRA considers the firm could pose to the PRA's statutory objectives. The PRA assigns firms to one of five "impact categories", based on its overall assessment of a firm's systemic importance, its proximity to failure and the context in which the firm operates.

The FCA's supervisory approach is built around three pillars. Pillar 1 is "Proactive Firm Supervision" (also referred to as the "Firm Systematic Framework") which is designed to be a forward-looking assessment of a firm's conduct risk. Pillar 2 is "Event Driven Work" where the FCA reacts to what is actually happening at the firm. Pillar 3 relates to "Products and Issues", where the FCA carries out thematic reviews and market studies across a particular sector or sectors, which is becoming more common.

Enforcement

The PRA and the FCA have powers to take a range of enforcement action, including the ability to sanction companies and individuals carrying out controlled functions within them. Most notably, enforcement action may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of (or the imposition of conditions on) permission to carry on regulated activities or of an approved person's status. The FCA and the PRA may also vary or revoke the permissions of an authorised firm that has not engaged in

regulated activities for 12 months or more, or that fails to meet the threshold conditions mentioned above.

In addition to the above, the FCA has the power to impose sanctions on an authorised person that is found to have committed market abuse and it has the power to institute criminal proceedings for offences under: (i) FSMA or any statutory instruments made under it (except certain provisions for which the PRA is the Relevant Regulator); (ii) the insider dealing provisions of the Criminal Justice Act 1993 (as amended); and (iii) certain provisions contained in anti-money laundering and counter-terrorist financing legislation.

Complaints and compensation

Insurance companies and insurance intermediaries, along with all other firms regulated by the PRA and the FCA, and certain other unregulated businesses, are under the compulsory jurisdiction of the FOS which has been set up under FSMA. Authorised firms must have appropriate complaints handling procedures but, where these are exhausted, the FOS provides for dispute resolution in respect of certain categories of customer complaints brought against applicable firms by individuals and small business customers.

The FOS provides an additional route to customers bringing complaints in the courts and is empowered, upon determining a dispute in favour of a customer, to order a firm to pay fair compensation for any loss or damage it caused to the customer, or to direct a firm to take such steps in relation to the customer as the FOS considers just and appropriate, irrespective of whether a similar award could be made by a court. The FOS is funded by levies and case fees payable by firms covered by the FOS.

The Financial Services Compensation Scheme ("**FSCS**") 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 insurance companies and insurance intermediaries.

The Motor Insurers' Bureau ("**MIB**") was set up in 1946 to provide a way of compensating the victims of uninsured or untraced motorists. Every insurance company underwriting compulsory motor insurance is obliged, by virtue of the Road Traffic Act 1988, to be a member of MIB and to contribute to its funding. The amount that each member contributes is calculated by means of a formula and is relative to the level of gross premium income generated by the member.

Reporting requirements

Under IPRU (INS), insurance companies must currently file a number of items with the PRA, including their audited annual accounts and balance sheets, which constitute their annual return. The directors of the insurance company must certify that the company has completed its annual return properly in accordance with the instructions of the PRA, and that the directors are satisfied that the company has complied in all material respects with the requirements set out in the PRA's rules. Annual returns are used to monitor an insurance company's solvency. For general insurers, the annual return is also retrospectively used to assess the adequacy of the company's claims provision.

Money laundering and other financial crime

All FSMA authorised firms are required to undertake certain administrative procedures and checks, which are designed to prevent money laundering. SYSC contains rules which require firms to take reasonable care to establish and maintain effective systems and controls for countering the risk that the firm might be used to further financial crime. For these purposes, financial crime includes any offence involving fraud or dishonesty, misconduct in, or misuse of information relating to, a financial market or handling the proceeds of crime, as well as bribery and corruption offences. One of the FCA's statutory objectives is to protect and enhance the integrity of the UK financial system which includes, among other things, reducing the opportunity for the UK financial system to be used for purposes connected with financial crime.

Data protection

The Data Protection Act 1998 ("**1998 Act**"), which came into force on 1 March 2000, regulates in the UK the obtaining and use of personal data relating to living individuals. Personal data includes any data about an individual (known as a "data subject") by which he or she can be identified (including, for example, a name, address, age or bank or credit card details). The data need not in any sense be private. The 1998 Act applies to both computerised data and to certain sets of manual data such as address books and filing systems. It lays down certain principles which, in general, must be followed by those who hold personal data. The 1998 Act gives effect to an EU directive. The Group and everyone working in the Group's business must comply with it. Breach of the 1998 Act may give rise to criminal or civil liability, and other enforcement action can be taken.

The current EU data protection framework, which is implemented in the UK by the 1998 Act, is under review at an EU level. The proposed reforms are expected to make some substantive changes to the regime. The time frame for implementation is unclear at present, although it is likely that a new EU Data Protection Regulation will be adopted in 2015 and will enter into force during 2017.

Legal Services

In August 2014, the Group entered into a partnership with the law firm Irwin Mitchell, to offer a range of legal services to customers requiring legal representation through a new ABS venture, IMe Law. IMe Law has been granted an ABS licence by the SRA pursuant to its powers under Part 5 of the Legal Services Act 2007. The venture is regulated by the SRA and, as such, is subject to the SRA Principles, the SRA Code of Conduct and other provisions of the SRA Handbook.

Recent and future developments

Solvency II

The existing solvency regime applicable to the EU insurance sector is over 30 years old. Financial markets have clearly developed significantly during this period.

The EU has for a number of years been developing proposals for the revision of the EU solvency framework applicable to insurers. The intention of the reform is to codify and harmonise prudential regulation for insurers, and apply more consistent risk sensitive standards to insurers' capital requirements. This new framework, as set out in the Solvency II Directive,

will, with effect from 1 January 2016, replace the current EU regulatory framework for the prudential supervision of insurance and reinsurance companies.

Solvency II adopts a three pillar approach to prudential regulation:

(i) Pillar 1 relates to Minimum Capital Requirements, covering matters including technical provisions, the Solvency Capital Requirement ("**SCR**") and MCR, rules on market consistent valuation of assets and the use of Internal Models to calculate the SCR;

(ii) Pillar 2 covers risk management, governance requirements, supervisory review and the Own Risk and Solvency Assessment of an insurer ("**ORSA**"); and

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

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Insurance companies will be encouraged to improve their risk management processes and will be allowed to make use of Internal Economic Capital models to calculate capital requirements, subject to regulatory approval. In addition, Solvency II will require firms to develop and embed an effective risk management system as a fundamental part of running the firm.

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

Solvency II provides for the supervision of insurance groups and will impose a group-level capital requirement in relation to certain insurance groups, including the Group. In the case of the Group, the PRA will be the lead regulator for the Group as the regulator in the domicile of the Group's insurance undertaking.

The Solvency II Directive was formally adopted by the European Council in November 2009, setting out a framework which will be supplemented by further and more detailed technical implementing measures drafted by the European Commission. Member States are required to implement Solvency II by 31 March 2015 and firms must comply with the new regime from 1 January 2016.

The Solvency II Directive was amended by the Omnibus II Directive, which came into force on 23 May 2014. Omnibus II introduces a number of changes to Solvency II, designed to reflect the current EU financial services supervisory framework (in particular, the replacement of the Committee of European Insurance and Occupational Pensions Supervisors with the European Insurance and Occupational Pensions Authority ("**EIOPA**") from 1 January 2011) and to align that framework with the legislative process introduced by the Lisbon Treaty.

The Omnibus II Directive defines the scope of EIOPA's powers in the context of the Solvency II regime, including its powers to resolve disagreements between national supervisors and to act as a coordinator in "emergency situations". The Directive also defines the areas in which EIOPA

may issue binding technical standards and sets out an expanded role for EIOPA in monitoring compliance by Member States.

The Solvency II "Level 1" Directive will be implemented by means of both "Level 2" measures, including delegated acts and binding technical standards, and "Level 3" guidance, including non-binding supervisory standards, recommendations and guidelines. Many of these further implementing measures are currently in the process of being developed. On 10 October 2014, the European Commission published a final draft of the Level 2 delegated acts, in the form of an EU Regulation. The Level 2 delegated acts will enter into force once approved by the European Parliament and the Council of the European Union, following scrutiny for a maximum period of six months. It has been reported that the Council has already decided not to object to the legislation. Further, EIOPA has published several sets of draft implementing technical standards and draft Level 3 guidelines for consultation, and has finalised the majority of its first set of guidelines. It has also published a timeline indicating that it intends to consult on and finalise the remaining implementing technical standards and guidelines required under Solvency II throughout the remainder of 2014 and the first half of 2015.

The PRA has published various consultation papers regarding the implementation of Solvency II in the UK and has also published a number of supervisory statements which set out the PRA's expectations of firms in relation to certain aspects of the regime.

As currently provided for under Solvency II, insurers will be permitted to calculate their SCR by using a detailed standard formula approach or by developing their own Internal Model, which must be approved by the Relevant Regulator. The Group, along with almost 90 per cent. of the UK insurance market, is seeking to apply the standard formula approach.

The Group's current Solvency II programme remains on track for the implementation date of 1 January 2016.

Changes to the Approved Persons regime

On 26 November 2014, the PRA published a consultation on a new senior managers' regime for insurers, and at the same time the FCA published a consultation on complementary changes to the approved persons regime for Solvency II firms. This is partly in response to the requirement under Solvency II for regulators to monitor the fitness and propriety of staff with key responsibilities in the insurance sector.

The PRA's proposed senior insurance managers' regime ("**SIMR**") would apply to a specified list of senior managers, including Chief Executive Officers, Chief Financial Officers and Chief Risk Officers, and also to senior actuaries, in recognition of their role in preparing models and risk assessments. These senior managers would be expected to prove their fitness to the PRA before they take up the role, and the onus would be on the individual to ensure risks within the firm are understood, measured and properly considered through a new PRA code of conduct.

The PRA also proposes that insurers will need to allocate certain prescribed core responsibilities to one or more persons who have been approved to perform a controlled function by either regulator.

The FCA has proposed that certain controlled functions which the PRA does not propose to include in the SIMR will be made FCA significant influence functions, and so persons in these

roles will be subject to the FCA's pre-approval. The FCA has also proposed new conduct rules which would apply to FCA and PRA approved persons at Solvency II firms, with some applying to all such persons, and others only to significant influence function holders.

The deadline for responses to both consultations is 2 February 2015, to allow time for rules and supervisory statements to be made by 31 March 2015 (alongside implementation of Solvency II), with the new regime to take effect on 1 January 2016. Both the PRA and FCA plan to consult further on the role of non-executive directors in Solvency II firms in early 2015.

Changes to the IMD

The European Commission published a proposal for a revised IMD on 8 July 2012 ("**IMD2**") after conducting a review which related, among other things, to the requirement to align the current IMD's provisions with the Solvency II regime. The aims of IMD2 are to, among other things:

- expand the scope of application of the current IMD to all sellers of insurance products, including insurance companies;
- include measures designed to manage and mitigate conflicts of interest, including rules mandating the disclosure of remuneration by intermediaries;
- enhance the suitability and objectivity of advice; and
- ensure that sellers' professional qualifications match the complexity of the products they sell.

In its plenary session on 26 February 2014, the European Parliament adopted a number of amendments to the Commission's original IMD2 proposal. This was followed by a series of 'compromise texts' on IMD2 published by the Council of the EU over the period May 2014 to October 2014. The Council published a sixth compromise proposal on 28 October 2014, which was accepted as the general approach on IMD2 by the Permanent Representatives Committee on behalf of the Council on 5 November 2014. 'Trialogue negotiations' (between the European Commission, the Council of the EU and the European Parliament) will now take place, with a view to the IMD2 being adopted at first reading, which is likely to take place in early 2015. Member States will have two years to transpose IMD2 into their national law once it has been adopted.

Regulation of consumer credit activities

The regulatory regime applicable to consumer credit business in the UK changed significantly on 1 April 2014, when responsibility for the regulation of consumer credit transferred from the OFT to the FCA.

The new consumer credit regime principally consists of FSMA and relevant secondary legislation, the retained provisions of the CCA and its retained secondary legislation, and provisions of the FCA Handbook.

From 1 April 2014, an "interim permission" regime under FSMA is in operation for a limited period, allowing consumer credit firms which held a valid CCA licence from the OFT as of

31 March 2014 to carry on the regulated credit activities which were covered by their CCA licence without seeking full FCA authorisation (for firms which are not otherwise authorised under FSMA) or variation of permissions (for firms which are already authorised under FSMA) immediately.

Such firms will nevertheless have to apply for full FCA authorisation or variation of permissions in due course, on a timetable set by the FCA (with a longstop date of 1 April 2016). A failure to do so within the allocated time period will result in the interim permission ceasing to have effect.

Certain authorised Group entities hold interim variations of permissions in relation to certain consumer credit-related regulated activities. The Group does not expect there to be any issues with these entities successfully being granted their full variation of permissions at the appropriate time.

As a result of the change in regime, the requirements applicable to the consumer credit industry have increased to become more comparable with the broader financial services industry. This reflects the new FCA-headed regulatory framework and is consistent with the FCA's supervisory and enforcement powers being substantially greater than the OFT's previous powers. Consequently, the Group's consumer credit-related activities are now subject to a more stringent regulatory regime and the relevant entities within the Group expect to have a more intensive supervisory relationship with the FCA as regards their consumer credit-related activities than was the case under the previous OFT regime.

CMA market investigation into the UK private motor insurance market

On 28 September 2012, the OFT published its final decision to refer the UK market for the supply or acquisition of private motor insurance and related goods or services to the Competition Commission (the "**CC**") for a market investigation. On 24 September 2014, the CMA published its final report concluding its investigation into the UK private motor insurance market. The CMA is the government body which now holds the responsibilities of the CC (following the closure of the CC on 1 April 2014).

The CMA identified an adverse effect on competition in the UK motor insurance market through: (i) consumers being forced to assume unnecessary costs incurred during the claims process following an accident; (ii) increased difficulty for consumers to identify the best-value offers and the potential to purchase add-on products at inflated prices; and (iii) the existence of conditions in some contracts between insurers and price comparison websites which limit price competition, reducing innovation and restricting entry. In addition, the CMA noted that price comparison websites have a degree of market power by virtue of the number of consumers who do not shop around between the websites, with the subsequent effect being that consumers pay higher car insurance premiums.

The CMA has chosen to adopt the following measures to address the issues identified in its report: (i) a requirement that insurers and price comparison websites provide better information to consumers about the costs and benefits of protected no claims bonus; (ii) a ban on price parity agreements between price comparison websites and insurers, and any equivalent behaviour, which stop insurers from making their products available to consumers through other price comparison websites more cheaply; and (iii) a recommendation that the FCA reviews how insurers inform consumers about other private car insurance-related add-on products. A price cap proposal to address the excessive costs in the claims handling process which result in

consumers assuming unnecessary costs was not adopted in the final report, as the CMA concluded that the measure would be disproportionate to the scale of the problem.

The CMA is required to implement the remedies within six months of issuing the final report and there will be a formal consultation process on the draft Order implementing the remedies in early 2015. In the final report, the CMA proposed the following timing for price comparison websites and insurers to effect the measures following implementation of the order: (i) one calendar month in respect of the ban on price parity agreements; and (ii) six months in respect of the requirements to provide better information about protected no claims bonus.

FCA thematic review into price comparison websites

The FCA launched a thematic review in November 2013 into insurance price comparison websites as to whether the way in which information is presented offers consumers the fairest deal. The FCA proposed that 14 price comparison websites would be subject to their review (comprising approximately 90 per cent. of the market) as well as several insurance providers. Given their market standing, gocompare.com was one of the price comparison website entities reviewed as part of this process.

The main concern of the FCA was the emphasis by the price comparison websites on the cheapest deal, without necessarily providing consumers with all the information to determine whether that was the best deal for them in the circumstances. Similarly, the ABI noted (in a response to the FCA's 2013 review) that while price comparison websites can be an aid to consumers, the focus on price as a determining factor between companies does limit the attention paid by consumers to the terms and conditions of the product. The ABI also noted that this concentration on price has resulted in the exclusion of product features and benefits that some customers value and require to be informed of in making a thorough assessment.

The FCA published its results from the November 2013 thematic review on 16 July 2014. The main findings of the FCA were that price comparison websites: (i) had not always taken reasonable steps to ensure consumers had the appropriate information to allow them to make informed choices as to core policies and add-on products; and (ii) had not sufficiently clarified their role in terms of products and services offered. The FCA also found that business models were not necessarily aligned with the best interests of consumers.

Following this publication, price comparison websites and providers are expected to consider the FCA's findings and take any appropriate action. The FCA intends to follow up with the price comparison websites in the thematic review by the end of January 2015 to ensure that any identified issues have been addressed appropriately.

*FCA thematic review into Motor Legal Expenses Insurance ("**MLEI**")*

MLEI packages together services to enable consumers to pursue their legal rights following a motor accident for which they were not at fault; the product enables individuals to recover their uninsured losses from the at-fault driver. In certain cases, cover is provided for legal representation for a driver being prosecuted for a motoring-related criminal offence.

The FCA conducted a thematic review on MLEI, the report of which was published in June 2013. The FCA's thematic review assessed MLEI from numerous perspectives, including its value and usefulness, customer understanding and the sales process. The FCA's June 2013

report identified three areas in which firms should particularly review and re-evaluate their approach to MLEI to ensure they are meeting their customers' needs: (i) the basis on which MLEI is provided, (ii) the quality of explanation of MLEI at all stages of the customer journey, including the claims process, with an emphasis on providing clear, appropriate information; and (iii) the extent of cover provided. The FCA had stated that it intended to review MLEI again in 2014 to assess how firms have reviewed and adjusted their provision of MLEI products, but it is expected that any further review will now not take place until 2015.

Any subsequent regulatory reviews into MLEI could bring about changes to MLEI regulation which might entail additional compliance costs to the Group and expenses associated with an adjustment to the way in which MLEI products are currently offered by the Group.

*FCA market review into general insurance add-on products (“**GI add-on products**”)*

A wide range of general insurance products are sold alongside or at the same time as primary insurance products. In July 2013, the FCA confirmed that it would conduct a market study into GI add-on products following its concern that consumers experience poor outcomes when purchasing GI add-on products. The FCA's objectives in this market study were to assess whether competition in the markets for GI add-on products was effective, to identify the reasons for any ineffective levels of competition and to understand the impact of competition levels on consumers.

The FCA published a report of its preliminary findings in March 2014, and a final report on the market study in July 2014. These reports confirmed and detailed its findings and proposed remedies in relation to GI add-on products. In the reports, the FCA proposed that it intervene to improve competition for consumers in the markets for GI add-on products. The reports also identified four proposed remedies to strengthen competition in the markets for add-ons by improving the way decisions are presented to consumers, the way add-ons are sold, and by putting pressure on firms to improve product value across both add-on and stand-alone products. The four areas in which the FCA proposed remedies are as follows: (i) Guaranteed Asset Protection insurance (in particular, imposing a deferred opt-in function on any add-on sales of this product); (ii) banning pre-ticked boxes (or opt-outs) for the sale of add-on products; (iii) requiring firms to publish claims ratios; and (iv) improving the way in which add-on products are sold through price comparison websites (in particular, what information consumers can access about add-ons and when such information is available in the sales process). The FCA is aiming to publish its consultation on remedies in early 2015.

Ogden Tables

If personal injury claims are determined or settled with lump sum payments, such payments are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the UK government and that is applied when calculating the present value of loss of earnings for claims settlement purposes. A change in the discount rate used in the Ogden Tables would impact all relevant claims settled after that date, regardless of whether the insurance to which the claim relates was priced on that basis or not (or occurred after that date or not). A reduction in the Ogden discount rate will increase lump sum payments to personal injury claimants. The Ogden discount rate is currently 2.5 per cent. This discount rate is currently under review. However, the timing of the conclusion of this review is unclear and it is still uncertain whether, and by how much, the rate will change.

Taxation

United Kingdom Taxation

The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law and HMRC published practice which may not be binding on HMRC, describe only the United Kingdom withholding tax treatment of payments in respect of the Notes and certain information reporting requirements. They are not exhaustive. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The Notes issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a Recognised Stock Exchange, within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a Recognised Stock Exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the regulated market of the London Stock Exchange. While the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of tax where, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided HMRC has not given a direction that the interest should be paid under deduction of tax.

In other cases, absent any other relief or exemption (such as a direction by HMRC that interest may be paid without withholding or deduction for or on account of tax to a specified Noteholder following an application by that Noteholder under an applicable double tax treaty), an amount must generally be withheld on account of income tax at the basic rate (currently 20 per cent.) from payments of interest on the Notes.

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount element on any such Notes should not be subject to any withholding or deduction for or on account of income tax.

Noteholders may wish to note that certain information (including the name and address of the recipient or the beneficial owner of the payments under the Notes, the value of the Notes and information and documents in connection with transactions relating to the Notes) may be obtained by, or be required to be reported to, HMRC. Information may be required to be provided by (amongst others) the registered holder of the Notes, persons who effect or are a party to a transaction in the Notes on behalf of others, registrars and administrators of such transactions, persons who make or receive or are entitled to receive payments derived from the Notes and persons by or through whom interest and payments treated as interest are paid or credited. Any information so reported or obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

EU Savings Directive

Under the Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to certain limited types of entities established in that other Member State.

Amendments to the Savings Directive adopted by the Council of the European Union on 24 March 2014 will, when implemented, expand the circumstances in which payments which indirectly benefit an individual resident in another Member State must be reported, including where the payment is made to, or secured for, certain trusts or certain other legal arrangements. The amendments will also expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. Member States are required to apply these new requirements from 1 January 2017.

For a transitional period, Luxembourg and Austria are instead required, unless during such period those countries 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). Once the amendments referred to above are implemented, investors should be aware that withholding in the relevant Member State(s) may occur in a wider range of circumstances than at present. Luxembourg will elect out of the withholding system with effect from 1 January 2015 in favour of automatic information exchange under the Savings Directive.

A number of other non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Subscription and Sale

Pursuant to the underwriting commitment set out in a letter between Deutsche Bank AG, London Branch (the "**Manager**") and the Issuer dated 28 November 2014 and a subscription agreement dated 18 December 2014 (the "**Subscription Agreement**"), the Manager has agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at the issue price of 98.703 per cent. of their principal amount (the "**Issue Price**") less certain commissions. All of the Notes will initially be subscribed by the Manager at the Issue Price and may be resold by the Manager in the future or by any other person at prevailing market prices, or at prices related thereto, at the time of such resale and without notice to holders of, or prospective investors in, the Notes. Such market prices may be lower than, or higher than, the Issue Price. The Manager is entitled to terminate and to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. The Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States or to U.S. persons, except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Manager 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 Notes in circumstances in which section 21(1) of the FSMA do not apply to the Issuer; 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 Notes in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken by the Issuer or the Manager that would permit a public offering of the Notes or possession or distribution of this document or other offering material relating to the Notes in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document 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 nor the Manager represent that the 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.

The Manager and its affiliates have engaged, and may in the future engage, in transactions with the Issuer and other members of the Group (including, in some cases, credit agreements, credit lines and other financing arrangements) in the ordinary course of its banking business and the Manager may enter into transactions with and perform various commercial, investment banking, financial advisory, and other services for the Issuer, for which it may receive fees and expenses.

The Manager and its affiliates may provide banking services including financing, to the Issuer, and for which they may be paid fees and expenses. In addition, in the ordinary course of their business activities, the Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or its affiliates (including the Notes). The Manager may have a lending relationship with the Issuer and its affiliates and may routinely hedge its credit exposure to the Issuer and/or its affiliates consistent with their customary risk management policies. Typically, the Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer or the relevant affiliate, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments (including, without limitation, the Notes).

General Information

(1) The net proceeds of the issue will be used by the Issuer to fund the Acquisition and for general corporate purposes, including the costs and expenses of the Acquisition and the Admission to trading of the Notes.

(2) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 115556843 and an ISIN Code of XS1155568436.

(3) The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

(4) The yield of the Notes is 6.932 per cent., on an annual basis. The yield is calculated as at the Issue Date on the basis of the issue price and the interest rate of 6.75 per cent. per annum. It is not an indication of future yield.

(5) The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be up to £4,200.

(6) It is expected that the applications for the Notes to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be granted on or about 22 December 2014 and that such admission will become effective, and that dealings in the Notes on the London Stock Exchange will commence, on or about 23 December 2014.

(7) The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the board of directors of the Issuer passed on 2 December 2014 and a committee of the board of directors of the Issuer passed on 7 December 2014.

(8) The Trust Deed provides that the Trustee may rely on certificates or reports from any auditors or other parties in accordance with the provisions of the Trust Deed whether or not any such certificate or report or engagement letter or other document in connection therewith contains any limit on the liability of such auditors or such other party.

(9) There has been no significant change in the financial or trading position of the Group since 30 June 2014 (the date of the Issuer's most recent financial statements), nor has there has been any material adverse change in the prospects of the Group since 31 December 2013, save as disclosed in the Issuer's interim management statement for the nine months to 30 September 2014;

(10) There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the period of 12 months prior to the date of this document, a significant effect on the financial position or profitability of the Group.

(11) The Prospectus will also be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at

http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

(12) Copies of the annual report and audited consolidated financial statements of the Issuer for the years ended 31 December 2012 and 2013, copies of reviewed interim results for the six months ended 30 June 2014 and copies of this Prospectus, the Trust Deed and the Agency Agreement and the constitutional documents of the Issuer will be available for inspection at the specified offices of each of the Paying Agents (as defined in the Conditions) during normal business hours, so long as any of the Notes is outstanding.

(13) KPMG Audit Plc, Registered Auditors with the Institute of Chartered Accountants in England and Wales, have audited, and rendered an unqualified audit report on, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and International Financial Reporting Standards as adopted by the European Union, the consolidated financial statements of the Issuer, for the two years ended 31 December 2012 and 31 December 2013. KPMG Audit Plc has no material interest in the Issuer.

(14) There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

(15) The Issuer does not intend to provide any post-issuance information in relation to the Notes.

(16) The Manager and its affiliates have engaged, and may in the future engage in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business.

Common Definition Schedule

"ABI"	means the Association of British Insurers;
"ABS" or **"Alternative Business Structure"**	means an Alternative Business Structure licence granted by the SRA;
"Acquisition"	means the Group's agreement to acquire the remaining 50 per cent. of the share capital of Gocompare, taking its ownership to 100 per cent.;
"Additional Amounts"	has the meaning given to it in Condition 8;
"Additional Insurance Product"	means the additional insurance products offered by the Group for purchase alongside a motor or home insurance policy (including, in the case of motor, alongside brokered policies);
"Additional Services"	means (i) sales of Additional Insurance Products; (ii) instalment interest on premium payments; (iii) policy administration fees; (iv) legal panel membership fees and fees generated from the appointment of firms used during the claims process, including medical, vehicle repair and car hire suppliers; and (v) certain other *de minimis* items, as more fully described in "*Description of the Issuer*";
"Admission"	means the admission of Ordinary Shares to the premium listing segment of the Official List and to the London Stock Exchange's main market for listed securities;
"Agency Agreement"	means the Agency Agreement dated 19 December 2014;
"Alternative Clearing System"	means any clearing system other than Euroclear or Clearstream, Luxembourg;
"Approved Persons"	means an individual who carries on any specific "controlled function", such as, for example, executive and non-executive directors and persons responsible for risk management, internal audit or compliance, and is approved by the appropriate regulator and has to comply with a set of principles which largely mirror the FCA's Principles for Businesses;
"Approved Winding-up"	means a solvent winding-up of the Issuer 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 Notes shall thereby become payable;

"Arrears of Interest"	means any interest in respect of the Notes not paid on an Interest Payment Date due to the occurrence of a Regulatory Deficiency Interest Deferral Event or due to the operation of the Solvency Condition, so long as the same remains unpaid;
"ASHE"	means the Annual Survey of Hours and Earnings;
"ASR"	means Additional Services Revenues;
"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;
"Audit Committee"	means the committee responsible for review of the effectiveness of the Group's internal controls and of the assurance processes, based on reports from functions which are themselves independent: Internal Audit, Risk Management and Compliance;
"Authorised Denomination"	means denominations of £100,000 and integral multiples of £1,000 in excess thereof;
"Board"	means the board of directors of the Company from time to time;
"Business"	means the business of the Group;
"Business Day"	has the meaning given to it in Condition 7.5;
"Calculation Amount"	means the interest calculated per £1,000 in principal amount of the Notes;
"CapGemini"	means CapGemini UK plc;
"Capital Disqualification Event"	has the meaning given to it in the Conditions;
"CC" or "Competition Commission"	means the independent public body which helped to ensure healthy competition between companies in the UK for the ultimate benefit of consumers and the economy. It closed on 1 April 2014 and its functions transferred to the CMA;

"CCA"	means the Consumer Credit Act 1974 (as amended);
"Chairman"	means Peter Wood, whose details are set out in the section headed "*Description of the Issuer*";
"CIFAS"	means the operator of the UK's National Fraud Database;
"Claims Portal"	is an online platform through which personal injury claims that fall within the scope of the Pre Action Protocol must be processed;
"Clearing System"	means Clearstream, Luxembourg or Euroclear;
"Clearing System Business Day"	means Monday to Friday (inclusive) except 25 December and 1 January;
"Clearstream, Luxembourg"	means Clearstream Banking, société anonyme;
"CMA"	means the Competition and Markets Authority, an independent non-ministerial governmental department responsible for promoting competition for the ultimate benefit of consumers, businesses and the economy, which took over from the CC and the OFT on 1 April 2014;
"COBS"	means the Conduct of Business Sourcebook;
"Committee of European Insurance and Occupational Pensions Supervisors"	was a committee composed of high level representatives from the insurance and occupational pensions supervisory authorities of the EU's Member States. It was replaced by EIOPA on 1 January 2011;
"Common Depositary"	means Euroclear and Clearstream, Luxembourg;
"Companies Act"	means the Companies Act 2006 of England and Wales, as amended, supplemented or replaced from time to time;
"Company"	means esure Group plc, a company incorporated in England and Wales with registered number 7064312 whose registered office is The Observatory, Castlefield Road, Reigate, Surrey RH2 0SG;
"CONC"	means the FCA's Consumer Credit sourcebook;
"Conditions"	means the Terms and Conditions of the Notes;
"CRO"	means the Chief Risk Officer of the Group;

"Directive"	means Directive 98/78/EC of the European Union as amended from time to time;
"Directors"	means the directors of the Company (being the Chairman, the Deputy Chairman, the Executive Directors and the Non-Executive Directors);
"Draft Level 2 Delegated Acts"	has the meaning given to it in section 2.1 of the section headed "*Risk Factors*";
"ECR" or **"enhanced capital requirement"**	means the measure general insurance firms must calculate under INSPRU, which serves as an indicative measure of the capital resources the firm may need to hold;
"EEA" or "European Economic Area"	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, as amended;
"EIOPA"	means the European Insurance and Occupational Pensions Authority, an advisory body responsible for supporting the stability of the EU's financial system, transparency of markets and financial products, and for the protection of insurance policyholders, pension scheme members and beneficiaries;
"EU" or **"European Union"**	means the European Union, established by the Treaty on European Union signed at Maastricht on 7 February 1992 (as amended by any later treaty) (the "**Treaty**"), which encompasses the 28 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;
"esure"	means esure Group plc;
"Euroclear"	means Euroclear Bank SA/NV;
"euro" or **"€"**	means the lawful single currency of the European Monetary Union;
"Eurozone"	means the Member States of the EU which have adopted the euro as their currency;

"Event of Default"	has the meaning given to it in the Trust Deed;
"Executive Directors"	means Stuart Vann and Darren Ogden;
"Extraordinary Resolution"	has the meaning given to it in the Trust Deed;
"FATCA"	means the U.S. Foreign Account Tax Compliance Withholding;
"FCA" or "Financial Conduct Authority"	means the UK Financial Conduct Authority, established pursuant to the Financial Services Act 2012, responsible for, among other things, the conduct regulation of all firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the Prudential Regulation Authority;
"FCA Handbook"	means the FCA's Handbook of rules and guidance;
"FLAOR"	means forward looking assessment of own risks;
"Flood Re" or **"Flood Reinsurance Scheme"**	means the Flood Reinsurance Scheme, announced in June 2013 as the Government's preferred approach to addressing the availability and affordability of flood insurance;
"FOS"	means the UK Financial Ombudsman Service as set up under FSMA;
"FPC" or **"Financial Policy Committee"**	means the Financial Policy Committee of the Bank of England, created pursuant to the Financial Services Act 2012 to monitor risks in the financial system and take action to remove or reduce systemic risks;
"FSA"	means the UK Financial Services Authority and, where relevant, any successor entity;
"FSCS"	means the Financial Services Compensation Scheme;
"FSMA"	means the UK Financial Services and Markets Act 2000, as amended from time to time;
"Gocompare"	means Gocompare.com Holdings Limited, a company incorporated in England and Wales with registered number 6062003 whose registered office is Unit 6, Imperial Courtyard, Newport, Gwent NP10 8UL;
"GI add-on products"	means general insurance add-on products as defined it in the "*FCA market review into general insurance add-on products*" section of the "*Regulatory*

	Overview";
"Global Note Certificate"	as defined in the Trust Deed;
"Group Holding Company"	means the Issuer or, if the Issuer has an ultimate insurance holding company that is subject to consolidated supervision by an EEA regulatory authority for the purposes of the Directive or, following Solvency II Implementation, the Solvency II Directive, such ultimate insurance holding company (such company being, as at the Issue Date, the Issuer);
"Group"	means at any time, the Group Holding Company and its Subsidiaries at such time;
"Group Supervisor"	means the regulatory authority exercising group supervision over the Group in accordance with the Solvency II Directive;
"Head of Claims"	means Sue Inglis and any successor from time to time;
"HMRC"	means Her Majesty's Revenue & Customs;
"Holder"	means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof);
"IASB"	means the International Accounting Standards Board;
"IBNR Reserves"	means a statistical estimate of the likely projected cost of settling costs and expenses of claims which have been incurred but for which information has not yet been reported to the Group, including estimates of costs and expenses of claims which have been incurred as at the balance sheet date, but of which the Group is currently not aware, together with an estimate of the projected development (adverse or favourable) on costs and expenses of existing recorded claims relating to information updates which have not yet been reported;
"ICA" or **"individual capital assessment"**	has the meaning given to it in the "*Regulatory capital for insurance companies*" section of the "*Regulatory Overview*";
"ICG" or **"individual capital guidance"**	means the PRA's Guidance on individual capital;

“ICOBS”	means the Insurance: (Conduct of Business) Sourcebook;
“ICSDs”	means Euroclear and Clearstream, Luxembourg;
“IFRS”	means International Financial Reporting Standards;
“IGD” or **“Insurance Groups Directive”**	means Directive 97/78/EC, which was implemented in the UK in 2004 and introduced new arrangements for regulating insurance undertakings within a group;
“IMD” or **“Insurance Mediation Directive”**	means Directive 2002/92/EC which established an EU-wide supervisory regime for insurance distributors involved in the promotion, sale and administration of certain insurance products;
“IMD2” or **“Insurance Mediation Directive 2”**	means the EC’s proposed Directive to amend and replace the IMD, which was published in July 2012;
“INSPRU”	means the Prudential Sourcebook for Insurers;
“insurance holding company”	has the meaning given to it in the Solvency II Directive;
“insurance intermediary”	has the meaning given to it in the “*Authorisation to carry on regulated activities in the UK*” section of the “*Regulatory Overview*”;
“insurance undertaking”	has the meaning given to it in the Solvency II Directive;
“Interest Payment Date”	means 19 June and 19 December of each year, starting on 19 June 2015;
“Internal Economic Capital model”	means the internal model esure is permitted to use under Solvency II to calculate its capital requirements, subject to approval by the Relevant Regulator;
“Internal Model”	means the Internal Economic Capital model;
“Internal Model Approval Process”	means the FSA’s Internal Model Approval Process under Solvency II;
“Investment Committee”	means the Group’s investment committee which performs regular reviews of the strategy and the strategic asset allocations to ensure that they remain appropriate;
“IPRU (INS)”	means the Interim Prudential Sourcebook for Insurers;

"Issue Date"	means 19 December 2014, being the date of the initial issue of the Notes;
"Issuer's Territory"	means the territory or any other such authority to the taxing jurisdiction of which the Issuer is subject generally;
"Issuer"	means esure Group plc;
"Junior Creditors"	means creditors of the Issuer whose claims rank, or are expressed to rank, junior to the claims of the Noteholders, including (without limitation) holders of Junior Securities;
"Junior Securities"	has the meaning given to in it Condition 2.1;
"LASPO"	means the Legal Aid, Sentencing and Punishment of Offenders Act 2012, which came into force in 2013;
"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;
"Lloyds Banking Group"	means Lloyds Banking Group plc;
"London Stock Exchange" or **"LSE"**	means the London Stock Exchange plc;
"Loss Ratio"	means claims incurred, net of reinsurance as a percentage of earned premiums, net of reinsurance;
"Lower Tier 2 Capital"	has the meaning given to it for the purposes of the Relevant Rules and shall following the implementation of Solvency II or any other change in law or any Relevant Rules such that Lower Tier 2 Capital ceases to be a separately recognised tier of capital resources, be deemed to be a reference to Tier 2 Capital;
"Management Buy-out"	means the acquisition of esure Holdings Limited from Lloyds Banking Group by esure Group Holdings Limited on 11 February 2010;
"Manager"	means Deutsche Bank AG, London Branch;
"Mandatory Interest Deferral Date"	means each Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date;

“Markets in Financial Instruments Directive”	means Directive 2004/39/EC;
“Maturity Date”	means 19 December 2024;
“MCR” or **“Minimum Capital Requirement”**	means the Minimum Capital Requirement or the group Minimum Capital Requirement (as applicable) referred to in Solvency II or the Relevant Rules;
“Member State”	means one of the 28 member states of the EU;
“Ministry of Justice Claims Portal”	means the Ministry of Justice Claims Portal data that can be found at http://www.claimsportal.org.uk/en/about/executive-dashboard/;
“MIPRU”	means the Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries;
“MLEI” or **“Motor Legal Expenses Insurance”**	has the meaning given to it in the “*FCA thematic review into Motor Legal Expenses Insurance*” section of the “*Regulatory Overview*”;
“Non-Executive Directors”	means Dame Helen Alexander, Anthony Hobson, Anne Richards, Mike Evans, Shirley Garrood, María Dolores and Peter Ward;
“Note Certificate”	means a certificate issued to each Noteholder in respect of its registered holding;
“Noteholders”	has the meaning given to it in the Conditions;
“Notes”	means the £125,000,000 6.75 per cent. Fixed Rate Subordinated Notes due 2024 issued by the Issuer;
“obligations”	includes any direct or indirect obligations of the Issuer and whether by way of guarantee, indemnity, other contractual support arrangement or otherwise and regardless of name or designation;
“Official List”	means the Official List of the UKLA;
“OFT”	means the Office of Fair Trading of the UK;
“Ogden Tables”	are the set of statistical tables and other information for use in court cases in the UK, the purpose of which is to make it easier to calculate future losses in personal injury and fatal accident cases;

"Omnibus II Directive"	means Directive 2014/51/EU;
"ORSA"	means the Own Risk and Solvency Assessment of an insurer covered by Pillar 2 of Solvency II;
"Outstanding Claims Reserves"	means the sum of the estimated costs of settling individual reported claims, which is recorded on the claims system and updated regularly by experienced claims staff on the basis of up-to-date information on the claim and associated damage and/or injury;
"*Pari Passu* Creditors"	means the creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders, including (without limitation) holders of *Pari Passu* Securities;
"Part 4A Permission"	means the authorisation to carry on a regulation activity in the UK by the FCA or the PRA (as applicable) under Part 4A of FSMA;
"Paying Agents"	means the paying agent as appointed under the Agency Agreement;
"Payment Card Industry Data Security Standard"	is a proprietary information security standard for organisations that handle cardholder information for the major debit, credit, prepaid, e-purse, ATM and POS cards;
"pence" or **"p"**	means the lawful currency of the UK;
"Perpetual Subordinated Loan Notes"	means the Perpetual Subordinated Loan Notes repaid in March 2013;
"Pillar 1"	means Pillar 1 of the three pillar approach adopted by Solvency II to prudential regulation;
"Pillar 2"	means Pillar 2 of the three pillar approach adopted by Solvency II to prudential regulation;
"Pillar 3"	means Pillar 3 of the three pillar approach adopted by Solvency II to prudential regulation;
"pounds" or **"£"**	means the lawful currency of the UK;
"PPOs"	means periodical payment orders;
"PRA" or **"Prudential Regulation Authority"**	means the Prudential Regulation Authority of the UK, established pursuant to the Financial Services Act 2012 and responsible for the micro-prudential regulation of banks, insurers and certain large

investment firms;

"PRA Handbook"	means the PRA's Handbook of rules and guidance;
"PRA Rulebook"	means the PRA's Rulebook of rules and directions;
"PRA's Fundamental Rules"	means the PRA's Fundamental Rules, as set out in the PRA Rulebook;
"Pre Action Protocol"	means the Ministry of Justice's Pre-Action Protocol for low value personal injury claims in road traffic accidents (*see Road Traffic Accident Protocol*);
"Principal Paying Agent"	means the principal paying agent as appointed under the Agency Agreement;
"Prospectus Directive"	means Directive 2003/71/EC as amended;
"Qualifying Dated Tier 2 Securities"	has the meaning given to it in the Conditions;
"Recognised Stock Exchange"	means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision. statute or statutory instrument replacing the same from time to time;
"Record Date"	has the meaning given to it in Condition 7.3;
"Register"	means the register maintained by the Registrar in respect of the Notes in accordance with the provisions of the Agency Agreement;
"Registrar"	means Deutsche Bank Luxembourg S.A. and includes any successor registrar appointed from time to time in connection with the Notes;
"Regulatory Capital Requirements"	means any applicable capital resources requirement or applicable overall financial adequacy rule (or equivalent) required by the Relevant Regulator, as any such requirement or rule is in force from time to time;
"Regulatory Deficiency Interest Deferral Event"	has the meaning given to it in the Conditions;
"Regulatory Deficiency Redemption Deferral Event"	has the meaning given to it in the Conditions;
"Relevant Date"	has the meaning given to it in Condition 8;

"Relevant Regulator"	means the UK Regulator or, if the UK Regulator at any time ceases to be the Group Supervisor or the Supplementary Supervisor, such other regulator as becomes the Group Supervisor for the purposes of Solvency II or the Supplementary Supervisor for the purposes of the Directive (as applicable) or such other regulator having primary supervisory authority with respect to prudential matters in relation to the Group;
"Relevant Rules"	means any legislation, rules or regulations (whether having the force of law or otherwise) in the jurisdiction of the Relevant Regulator, implementing the Directive or, as applicable, Solvency II and any relevant prudential rules for insurers applied by the Relevant Regulator and any amendment, supplement or replacement of either thereof from time to time relating to the characteristics, features or criteria of own funds or capital resources;
"Remuneration Committee"	means the Group's remuneration committee;
"Risk Committee"	means the Group's risk committee responsible for oversight of the Group's risk and control management framework, including the composition and performance of the risk management function and of adherence to the Board's stated risk strategy and appetite;
"Risk Factors"	means the section headed "Risk Factors" in this Prospectus;
"Road Traffic Accident Protocol"	means the Ministry of Justice's Pre-Action Protocol for low value personal injury claims in road traffic accidents (*see Pre-Action Protocol*);
"Savings Directive"	means Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments, which was enacted to implement the EU withholding tax, requiring Member States to provide other Member States with information on interest paid to achieve effective taxation of the payments in the Member State where the taxpayer is resident for tax purposes;
"SCR" or **"Solvency Capital Requirement"**	has the meaning given to it in the "*Recent and future developments: Solvency II*" section of the "*Regulatory Overview*";
"Securities Act"	means the United States Securities Act of 1933, as

amended;

“Senior Creditors”	has the meaning given to it in the Conditions;
“Solvency Condition”	means the conditions described in Condition 2.2;
“Solvency II”	means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of a regulation, a directive or otherwise);
“Solvency II Directive”	means Directive 2009/138/EC of the European Union of 25 November 2009 on the taking-up and pursuant 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 date from which legislation, rules or other measures implementing Solvency II in the UK (or, if the UK Regulator ceases to be the Supplementary Supervisor or ceases to be the Group Supervisor, in the jurisdiction of such replacement Supplementary Supervisor or of the replacement Group Supervisor, as applicable) are applied to the Issuer;
“SRA”	means the Solicitors Regulation Authority;
“SRA Handbook”	means the SRA’s Handbook of Guidance;
“SRA Principle”	means the SRA principles dated 17 June 2011, and made by the Solicitors Regulation Authority Board;
“Stabilising Manager”	means Deutsche Bank AG, London Branch;
“Statement of Principles”	means the Statement of Principles on Flood Insurance, which was agreed between the Government and the insurance industry in 2000, and expired on 30 June 2013;
“sterling”	means the lawful currency of the United Kingdom;
“Subscription Agreement”	means the Subscription Agreement dated 18 December 2014;
“Subsidiary”	has the meaning given to it in section 1159 of the Companies Act (as amended from time to time);

“Substitute Obligor”	means the person or persons incorporated in any country in the world who take the place of the Issuer as a new principal debtor under the Trust Deed and the Notes;
“Substituted Territory”	means, if the Substitute Obligor is, or becomes, subject to the taxing jurisdiction of a territory or any authority in that territory with the power to tax, that territory;
“Supplementary Supervisor”	has the meaning given to it in the Conditions;
“SYSC”	means the Senior Management Arrangements, Systems and Controls Sourcebook;
“Tax Event”	means an event of the type described in Conditions 6.3(a) or 6.3(b);
“Tax Law Change”	has the meaning given to it in Condition 6.3(a);
“TCF” or **“treating customers fairly”**	means the FCA’s requirements on firms to treat their customers fairly and achieve fair outcomes for customers, which stem from the regime implemented by the FSA;
“Tier 1 Capital”	has the meaning given to it for the purposes of the Relevant Rules;
“Tier 2 Capital”	has the meaning given to it for the purposes of the Relevant Rules;
“Transfer Agent”	means the transfer agent as named in the Agency Agreement, including any successor or additional transfer agents appointed from time to time in connection with the Notes;
“Trust Deed”	means the Trust Deed dated 19 December 2014;
“Trustee”	has the meaning given to it in the Terms and Conditions of the Notes;
“UK” or **“United Kingdom”**	means the United Kingdom of Great Britain and Northern Ireland;
“UK Insurance Fraud Bureau”	is a not-for-profit organisation funded by the insurance industry, specifically focused on detecting and preventing organised and cross industry insurance fraud;

"UK Regulator"	means the UK Prudential Regulation Authority or any successor UK regulatory authority having prudential supervisory responsibilities with respect to the Issuer and/or the Group;
"UKLA" or **"UK Listing Authority"**	means the UK Financial Conduct Authority in its capacity as the UK listing authority for the purposes of FSMA and, as applicable, any successor authority when acting as the UK competent listing authority for the purposes of Part VI (Official Listing) of FSMA or otherwise;
"U.S." or **"United States"**	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"VAT"	means value added tax; and
"1998 Act"	means the Data Protection Act 1998.

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