



Phoenix Group Holdings

(incorporated with limited liability under the laws of the Cayman Islands with registered number 202172)

PGH Capital Public Limited Company

(incorporated with limited liability in Ireland with registered number 537912)

£3,000,000,000 Euro Medium Term Note Programme

guaranteed on a senior basis

in respect of Notes issued by PGH Capital Public Limited Company by

Phoenix Group Holdings

Under the Euro Medium Term Note Programme described in this Prospectus (the “**Programme**”), PGH Capital Public Limited Company (an “**Issuer**” or “**PGHC**”) and Phoenix Group Holdings (“**Phoenix**” or “**PGH**” or an “**Issuer**” and together with PGHC, the “**Issuers**”), or in its capacity as guarantor for the Senior Notes (as defined below) issued by PGHC, the “**Guarantor**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”). The Notes may be issued (i) in the case of Phoenix or PGHC, as dated unsubordinated notes (“**Senior Notes**”), (ii) in the case of Phoenix only, as dated subordinated notes with terms capable of qualifying as Tier 3 Capital (as defined in “*Terms and Conditions of the Tier 3 Notes*”) (“**Tier 3 Notes**”), (iii) in the case of Phoenix only, as dated subordinated notes with terms capable of qualifying as Tier 2 Capital (as defined in “*Terms and Conditions of the Tier 2 Notes*”) (“**Dated Tier 2 Notes**”) or as undated subordinated notes with terms capable of qualifying as Tier 2 Capital (as defined in “*Terms and Conditions of the Tier 2 Notes*”) (“**Undated Tier 2 Notes**”) and, together with the Dated Tier 2 Notes, the “**Tier 2 Notes**”). The Tier 2 Notes and the Tier 3 Notes are referred to collectively in this Prospectus as the “**Subordinated Notes**”. The aggregate nominal amount of Notes outstanding will not at any time exceed £3,000,000,000 (or the equivalent in other currencies). Senior Notes issued by PGHC will be guaranteed by the Guarantor on a senior, unsecured basis. Payments of interest, principal and guaranteed amounts under the Subordinated Notes may be subject to optional or mandatory deferral in accordance with the terms of the relevant Series (as defined herein) of Subordinated Notes.

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the “**FCA**”), which is the United Kingdom competent authority (in such capacity, the “**UK Listing Authority**”), for the purposes of the Prospectus Directive (as defined herein) and relevant implementing measures in the United Kingdom as a base prospectus (the “**Prospectus**”) for the purposes of Article 5.4 of the Prospectus Directive and provides information with regard to Phoenix, PGHC and the Group (being Phoenix and each of its consolidated subsidiaries (the “**Group**” and each a “**Group Company**”) which, according to the particular nature of Phoenix, PGHC, the Group and the Notes is necessary to enable investors to make an informed assessment of the assets and liabilities, profits and losses and prospects of Phoenix (where applicable), PGHC and (in each case) the Group and of the Notes.

Applications have been made to the UK Listing Authority for Notes issued under the Programme (other than PD Exempt Notes (as defined below)) for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s EEA Regulated Market (the “**Market**”). The Market is a regulated market for the purposes of European Council Directive 2014/65/EU, as amended (“**MiFID II**”). References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to trading on the Market (or any other stock exchange) and have been admitted to the Official List. The relevant Final Terms (as defined herein) or Pricing Supplement (as defined herein) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange). References in this Prospectus to “**PD Exempt Notes**” are to Notes for which no prospectus is required to be published pursuant to the Prospectus Directive (as defined below). Information contained in this Prospectus regarding PD Exempt Notes shall not be deemed to form part of this Prospectus and the UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with the offering and sale of PD Exempt Notes. In the case of PD Exempt Notes, notice of the aforesaid information which is applicable to each Tranche (as defined herein) will be set out in a pricing supplement document (“**Pricing Supplement**”). Accordingly, in the case of PD Exempt Notes, each reference in this Prospectus to information being specified or identified in the applicable Final Terms shall be read and construed as a reference to such information being specified or identified in the applicable Pricing Supplement, unless the context requires otherwise.

Each Series of Notes in bearer form may be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”) and, together with a temporary Global Note, a “**Global Note**”). Notes in registered form will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s (as defined herein) entire holding of Registered Notes (as defined herein) of one Series. Certificates representing Registered Notes that are registered in the name of a nominee or a common nominee, as the case may be, for one or more clearing systems are referred to as “**Global Certificates**”. In the case of Senior Notes, if the relevant Global Note is stated in the applicable Final Terms to be issued in New Global Note (“**NGN**”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”). Global Notes which are not issued in NGN form (“**Classic Global Notes**”) or “**CGNs**”) and Certificates will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”). In the case of Senior Notes, if the relevant Global Certificates are stated in the applicable Final Terms to be issued under the New Safekeeping Structure (“**NSS form**”), the Global Certificates will be delivered on or prior to the original issue date of the relevant Tranche to the Common Safekeeper for Euroclear and Clearstream, Luxembourg. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “*Overview of Provisions Relating to the Notes while in Global Form*”.

Series of Notes to be issued under the Programme may be rated or unrated. Where a Series of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme or Notes already issued. Where a Series of Notes is rated, the applicable rating(s) will be specified in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (the “**EEA**”) or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Prospective investors should have regard to the section headed “**Risk Factors**” on page 10 of this Prospectus for a discussion of factors which may affect the Issuers’ and the Guarantor’s ability (as applicable) to fulfil their respective obligations in respect of Notes issued under the Programme and factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any State or other jurisdiction of the United States (the “**United States**” or “**U.S.**”) and the Notes may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold or, in the case of Notes in bearer form, delivered within the U.S. or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)).

Interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date (the “**Exchange Date**”), upon certification as to non-U.S. beneficial ownership.

Arranger

Citigroup

Dealers

ABN AMRO

Citigroup

ING

Morgan Stanley

BNP PARIBAS

Commerzbank

J.P. Morgan

Natixis

BofA Merrill Lynch

HSBC

Lloyds Bank

NatWest Markets

Phoenix accepts responsibility for the information contained in this Prospectus and (as applicable) the Final Terms relating to any Series of Notes. PGHC accepts responsibility for the information contained in this Prospectus and (as applicable) the Final Terms relating to any Series of Senior Notes issued or to be issued by PGHC. To the best of the knowledge of each of PGHC and Phoenix (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.

The accountant's reports on the unaudited pro forma financial information which are set out in the sections of this Prospectus entitled "*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*" and "*Unaudited Pro Forma Solvency Information of the Enlarged Group*" (the "EY Accountant's Reports") have been prepared by Ernst & Young LLP. Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of the EY Accountant's Reports in the form and context in which they appear in this Prospectus and has authorised those parts of this Prospectus which comprise the EY Accountant's Reports for the purposes of item 5.5.4R(2)(f) of the Prospectus Rules.

The accountant's report on the combined historical financial information of Standard Life Assurance which is set out in the section of this Prospectus entitled "*Financial Information of Standard Life Assurance*" (the "KPMG Accountant's Report") has been prepared by KPMG LLP. KPMG LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of the KPMG Accountant's Report in the form and context in which it appears in this Prospectus and has authorised those parts of this Prospectus which comprise the KPMG Accountant's Report for the purposes of item 5.5.4R(2)(f) of the Prospectus Rules.

Relevant third party information has been extracted from sources as specified in this Prospectus. Each of PGHC and Phoenix confirm that such information has been accurately reproduced and that, so far as they are aware and are able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) and includes any relevant implementing measure in the Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

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

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by PGHC, Phoenix or any of the Dealers or the Arranger. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of PGHC or Phoenix since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented, or that there has been no adverse change in the financial position of each of Phoenix or PGHC since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented, or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of PD Exempt Notes) includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the

EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC, as amended, the “Insurance Mediation Directive”, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”), for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Notes (or Pricing Supplement in the case of PD Exempt Notes) may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “MiFID Product Governance Rules”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by PGHC, Phoenix, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and may include Notes in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered or sold or, in the case of Notes in bearer form, delivered within the United States or to, or for the account or benefit of, United States persons (as defined in Regulation S).

The Notes are being offered and sold outside the United States to non-United States persons in reliance on Regulation S. For a description of these and certain further restrictions on offers and sales of Notes and on distribution of this Prospectus, see “*Subscription and Sale*”.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other United States regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of PGHC, Phoenix, the Arranger or the Dealers to subscribe for, or purchase, any Notes.

No invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for, or purchase, any Notes and no such invitation is hereby made.

Save for PGHC and Phoenix, no other person has separately verified the information contained herein. To the fullest extent permitted by law, none of the Dealers, the Arranger or the Trustee makes any

representation, express or implied, nor accepts any responsibility for the accuracy or completeness of the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger, the Trustee or a Dealer or on its behalf in connection with PGHC, Phoenix or the issue and offering of the Notes. The Arranger, the Trustee and each Dealer accordingly disclaims all and any liability to any investor whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement in connection with the offering of the Notes or their distribution. No Dealer shall be responsible for, or for investigating, any matter which is the subject of, any statement, representation, warranty or covenant of the Issuer contained in the Notes, or any other agreement or document relating to the Notes or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof. Neither this Prospectus nor any other information supplied in connection with the Programme or the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of PGHC, Phoenix, the Arranger, the Trustee or the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or the Notes should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus or any other information supplied in connection with the Programme or the Notes and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers, the Trustee or the Arranger undertakes to review the financial condition or affairs of PGHC or Phoenix during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Trustee or the Arranger.

In connection with the issue of any Tranche, the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes of the Series of which such Tranche forms part at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Final Terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Benchmark Regulation

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the “Benchmark Regulation”). If any such reference rate does constitute such a benchmark, the Final Terms or the Pricing Supplement, as applicable, will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“ESMA”) pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms or the Pricing Supplement, as applicable. The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the relevant Issuer does not intend to update the relevant Final Terms or the Pricing Supplement, as applicable, to reflect any change in the registration status of the administrator.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank of Ireland. PGHC is not and will not be regulated by the Central Bank of Ireland as a result of issuing any Series of Notes.

IMPORTANT INFORMATION

Cautionary note regarding forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the Group’s intentions, beliefs or current expectations concerning, among other things, the Group’s business, results of operations, financial position, prospects, dividends, growth, strategies and the asset management business.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group’s operations, its financial position and dividends, and the development of the markets and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the Group’s results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- the Acquisition (as defined herein) being made subject to additional conditions or failing to proceed at all;
- the Enlarged Group (as defined herein) failing to realise the expected benefits of the Acquisition;
- management of PGH being distracted or overstretched by the process of integrating and managing the Enlarged Group;
- risks stemming from the economy and the performance of financial markets generally;
- changes in the legal and regulatory environment in which the Group operates;
- the FCA, the PRA or other regulators intervening in the Group’s business on industry wide issues or conducting thematic reviews;
- restrictions on the ability to pay dividends, or a failure to pay dividends according to the Group’s dividend policy;
- changes in regulatory capital requirements;
- changes in accounting standards or in actuarial assumptions;
- risk management policies and procedures being ineffective;
- further contributions, in addition to those already agreed, being required to be made to the Group’s defined benefit pension schemes;

- third party asset management firms that manage the Group’s assets underperforming or difficulties arising from the Group’s outsourcing relationships;
- the Group failing to maintain the availability of its systems and to safeguard the security of its data;
- third party reinsurers being unwilling or unable to meet their obligations under reinsurance contracts;
- legal and arbitration proceedings;
- the level of the Group’s indebtedness;
- changes in taxation law, including future changes in the tax legislation affecting specific products offered by the Group and changes to the VAT rules; and
- other factors discussed in the section of this document headed “*Risk Factors*”.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this Prospectus reflect the Group’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group’s business, results of operations, financial condition, prospects, dividends, growth, strategies and the asset management business. Investors should specifically consider the factors identified in this Prospectus, which could cause actual results to differ, before making an investment decision. Subject to the requirements of the listing rules, issued by the FCA under Part VI of FSMA (the “**Listing Rules**”, the Prospectus Rules of the FCA (the “**Prospectus Rules**”), Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 and the Disclosure Guidance and Transparency Rules produced by the FCA and forming part of the book and rules and guidance maintained by the FCA (the “**FCA Handbook**”), PGHC and Phoenix undertake no obligation publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in PGHC’s or Phoenix’s expectations or to reflect events or circumstances after the date of this Prospectus.

Presentation of financial information

Capitalisation and indebtedness information for the Group and Standard Life Assurance (as defined below) in this Prospectus and other financial information, unless otherwise stated, has been extracted without material adjustment from the Annual Report and Accounts of the Group for the years ended 31 December 2017 and 2016 and the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 contained in the annex to this Prospectus entitled “*Historical Financial Information of Standard Life Assurance*”. Where information has been extracted from the consolidated historical financial information of the Group or the combined financial statements of Standard Life Assurance, as the case may be, the information is audited unless otherwise stated.

Unless otherwise indicated, financial information for the Group and Standard Life Assurance in this Prospectus and the information incorporated by reference into this Prospectus is presented in pounds sterling and has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board.

For accounting purposes, it is expected that Standard Life Assurance will be consolidated into the Group’s IFRS financial statements in the year ending 31 December 2018. A fair value exercise in respect of Standard Life Assurance’s assets and liabilities will be conducted following Completion (as defined below), resulting in Standard Life Assurance’s assets and liabilities being included at fair value on the date of the Acquisition in the Enlarged Group’s statement of financial position. Intangible assets will be expected to arise from the Acquisition and may include goodwill, acquired value of in force business, and other intangibles.

The financial information presented in a number of tables in this Prospectus has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this Prospectus reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

References to “**Solvency II**” in this Prospectus are to the Directive on the taking up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC) and implementation measures in respect thereof, establishing a new regime in relation to solvency requirements and other matters affecting the financial strength of insurers and reinsurers in the EU.

Pro forma financial information

In this Prospectus, any reference to “unaudited pro forma information” is to information which has been extracted without material adjustment from the unaudited pro forma IFRS financial information contained in “*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*” and the unaudited pro forma Solvency II information contained in “*Unaudited Pro Forma Solvency Information of the Enlarged Group*”.

The unaudited pro forma IFRS income statement and unaudited pro forma statement of IFRS net assets of the Enlarged Group (as defined herein) (together, the “**Unaudited Pro Forma IFRS Financial Information**”) contained in “*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*” have been prepared for illustrative purposes only in accordance with Annex II of Commission Regulation (EC) No 809/2004 (the “**PD Regulation**”) and on the basis of the notes set out therein. The unaudited pro forma IFRS income statement has been prepared to illustrate the effect on the earnings of the Group as if the proposed Acquisition and the associated financing had taken place on 1 January 2017. The unaudited pro forma statement of IFRS net assets has been prepared to illustrate the effect on the net assets of the Group as if the proposed Acquisition and the associated financing had taken place on 31 December 2017. The Unaudited Pro Forma IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Issuer, the Group or the Enlarged Group’s actual financial position or results. The Unaudited Pro Forma IFRS Financial Information is stated on the basis of the accounting policies adopted by PGH in preparing its consolidated financial statements for the year ended 31 December 2017.

The unaudited pro forma statement of Group Solvency II Surplus of the Enlarged Group (the “**Unaudited Pro Forma Solvency Information**”) contained in “*Unaudited Pro Forma Solvency Information of the Enlarged Group*” of this document has been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out therein. The Unaudited Pro Forma Solvency Information has been prepared to illustrate the effect on the group solvency position at the level of the Group as if the proposed Acquisition and the associated financing had taken place on 31 December 2017. The Unaudited Pro Forma Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent PGH, the Group or the Enlarged Group’s actual financial position, results or solvency position. The Unaudited Pro Forma Solvency Information is stated on the basis of Solvency II reporting expected to be applied by PGH for the year ending 31 December 2018.

Save as provided above, references in this Prospectus to “pro forma” or information prepared on a “pro forma basis” are not intended to indicate pro forma financial information prepared in accordance with Annex II of the Prospectus Rules. This information has instead been included in this Prospectus to illustrate the contribution of certain segments or businesses to the Group financial information.

Presentation of certain key performance indicators and targets

Certain key performance indicators and targets referred to in this Prospectus are unaudited non-GAAP measures that are used by the Group, including those described below:

- **Solvency II Own Funds (“Own Funds”)**: Own Funds are the aggregate of “basic Own Funds” (assets an insurer has on its balance sheet) and “ancillary Own Funds” (off-balance sheet resources that are loss absorbent, for example, unpaid share capital). All such assets are subject to eligibility criteria and weighting, as determined by reference to Articles 93 to 95 of Solvency II as well as to Articles 69 to 73, 76, 77, 79 and 82 of Commission Delegated Regulation (EU) 2015/35, as interpreted by the European Insurance and Occupational Pension Authority’s (“**EIOPA**”) “Guidelines on Own Funds” (BoS-14/168 EN). References to the Own Funds of a particular entity are references to the Own Funds held by an entity, whereas references to the Group’s Own Funds, or the Enlarged Group’s Own Funds, are references to the Own Funds within the scope of the Solvency II group.
- **Solvency Capital Requirement (“SCR”)**: This is the standard Own Funds level that a UK life insurer is required to maintain by the United Kingdom Prudential Regulation Authority (“**PRA**”). A separate calculation also applies to Solvency II groups. SCR is determined by reference to a basic standard formula set out in Articles 103–111 of Solvency II, however, a life insurer may agree an amendment to the standard formula to create a bespoke calculation which more accurately reflects the risks applicable to that life insurer, that amendment is achieved by way of an internal model (the “**Internal Model**”). Own Funds held to meet the SCR requirement (and any additional amendment or add-on approved by the PRA) are also referred to as “regulatory capital” and any reference to an increase or decrease in a regulatory capital requirement is a reference to an increase or decrease in the amount of regulatory capital an entity has to hold. The amount by which an SCR requirement is exceeded by Own Funds is referred to as the “**Solvency II Surplus**”.
- **Solvency II Shareholder Capital Coverage Ratio (“Shareholder Capital Coverage Ratio”)**: This is the ratio of Solvency II Own Funds to SCR, excluding Solvency II Own Funds and SCR of unsupported with-profit funds and Group pension schemes. Unsupported with-profit funds and Group pension schemes refer to those funds whose Solvency II Own Funds exceed their SCR. Where a with-profit fund or Group pension scheme has insufficient Solvency II Own Funds to cover its SCR, its Solvency II Own Funds and SCR are included within the Shareholder Capital Coverage Ratio calculation.
- **Cashflows from the Acquisition 2018 to 2022**: These are equal to the net cashflows expected to be remitted by Standard Life Assurance to the Holding Companies (as defined below), aggregated for the years 2018 to 2022.
- **Cashflows from the Acquisition for 2023 onwards**: These are equal to the net cashflows expected to be remitted by Standard Life Assurance to the Holding Companies, aggregated for the years from 2023 onwards.
- **Assets under management (“AUM”)**: These are assets managed by the Group and held: (i) in respect of actual or anticipated liabilities to policyholders under a policy; or (ii) on behalf of policyholders under the terms of a policy.
- **Holding Companies cash**: This represents the cash and cash equivalents held in the Holding Companies and available to be used to meet future corporate expenses, pension scheme funding requirements, debt servicing and repayments, and the payment of shareholder dividends. In this Prospectus “**Holding Companies**” refers to Phoenix Group Holdings, Phoenix Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Assurance Group Holdings

Limited, Pearl Group Holdings (No. 1) Limited, PGH (LCA) Limited, PGH (LCB) Limited and Pearl Life Holdings Limited.

Currencies

In this Prospectus and the information incorporated by reference into this Prospectus, references to “£”, “sterling” or “GBP” are to the lawful currency of the United Kingdom, references to “US dollars” or “U.S.\$”, are to the lawful currency of the United States, and references to “Euro”, “euro” or “€” are to the euro, the European single currency which was introduced at the start of the third stage of the European Economic and Monetary Union, pursuant to the Treaty establishing the European Community (as amended from time to time).

No profit forecast

No statement in this Prospectus is intended as a profit forecast and no statement in this Prospectus should be interpreted to mean that earnings per ordinary share of PGH (a “Share”) for the current or future financial years would necessarily match or exceed the historical published earnings per Share.

Volcker Rule

Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Volcker Rule”) prevents “banking entities” as defined under the Volcker Rule (which would include certain non-U.S. affiliates of U.S. banking entities) from, among other things, acquiring an “ownership interest” in, or in sponsoring, any “covered fund” as defined in the Volcker Rule.

Phoenix may be treated as a “covered fund” under the Volcker Rule. Further, “ownership interest” is broadly defined and may arise through a holder’s exposure to the profit and losses of a covered fund as well as through any right of the holders to participate in the selection of an investment adviser, manager or board of directors of the covered fund. While it is Phoenix’s belief that the Notes should not be considered “ownership interests” of Phoenix or (in the case of Senior Notes issued by PGHC) PGHC, there is no assurance that they would not be, and none of PGHC, Phoenix, or the Dealers makes any representation regarding the status of the Notes under the Volcker Rule or with respect to the ability of any investor to acquire or hold the Notes, now or at any time in the future. Each investor is responsible for analysing its own position under the Volcker Rule and any similar measures. To the extent that investment by banking entities in the Notes is prohibited or restricted by the Volcker Rule, this may impair the marketability and liquidity of the relevant series of Notes.

Currency exchange rate information

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in sterling. The functional currency of Phoenix and PGHC is sterling, as is the reporting currency of the Group. Transactions not already measured in sterling have been translated into sterling in accordance with the relevant provisions of IAS21. On consolidation, income statements of subsidiaries for which sterling are not the functional currency are translated into sterling, the presentation currency for Phoenix and PGHC, at average rates of exchange. Balance sheet items are translated into sterling at period-end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into sterling at the rate indicated, at any other rate or at all.

In addition to the convenience translations (the basis of which is described above), the basis of translation of foreign currency transactions and amounts contained in the audited and unaudited financial information included in this Prospectus is described therein and may be different to the convenience translations.

Insurance Group Parent

References in this Prospectus to the “Insurance Group Parent Entity” are to Phoenix, or any other subsidiary or parent company of Phoenix which from time to time constitutes the highest entity in the relevant

insurance group for which supervision of group capital resources or solvency is required (whether or not such requirement is waived in accordance with the Relevant Rules (as defined in the relevant Conditions)) pursuant to the regulatory capital requirements in force from time to time. References to the “**Insurance Group**” are to the Insurance Group Parent Entity and its subsidiaries (as such term is defined under section 1159 of the Companies Act, “**Subsidiaries**”).

The Acquisition

On 23 February 2018, the Issuer announced the proposed acquisition of Standard Life Assurance Limited (“**SLAL**”) (to include Vebnet (Holdings) Limited and exclude certain subsidiaries of SLAL following a pre-Completion restructuring) (“**Standard Life Assurance**”) from Standard Life Aberdeen plc (“**Standard Life Aberdeen**”) for a total consideration of £2,930m (subject to adjustment), and the extension and significant enhancement of the existing long term strategic partnership between PGH and Standard Life Aberdeen. The acquisition encompasses all of Standard Life Assurance Limited’s UK and European life insurance business.

References in this Prospectus to the “**Acquisition**” are to the acquisition by Phoenix of Standard Life Assurance from Standard Life Aberdeen. References to the “**Share Purchase Agreement**” are to the share purchase agreement dated 23 February 2018 entered into by PGH and Standard Life Aberdeen in relation to the Acquisition (as amended, modified, restated or supplemented from time to time).

Notes may not be a suitable investment for all investors

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor should (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) have access to and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor’s currency; (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the information set out in the table below and the information contained in (i) the 2017 and 2016 Annual Report and Accounts published by the Group, and (ii) the 2017 and 2016 Annual Report and Accounts published by PGHC and (iii) the section entitled “Terms and Conditions of the Tier 2 Notes” set out on pages 136 to 179 of the prospectus dated 30 March 2017 in relation to the Programme (the “**2017 Conditions**”), which have each been previously published 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 (i) the 2017 and 2016 Annual Report and Accounts published by the Group and (ii) the 2017 and 2016 Annual Report and Accounts published by PGHC have been filed with the National Storage Mechanism or announced through a Regulatory Information Service and are available on Phoenix's corporate website at <http://www.thePhoenixgroup.com> and are available free of charge at Phoenix's principal place of business at 100 St Paul's Churchyard, London, EC4M 8BU, United Kingdom.

Reference Document	Information incorporated by reference	Page number in the reference document
2017 Annual Report and Accounts of PGHC		
	The sections entitled " <i>Business review</i> " and " <i>Corporate activity and significant events</i> "	2
	Independent Auditor's report	6
	Statement of comprehensive income	8
	Statement of financial position	9
	Statement of cashflows	10
	Statement of changes in equity	11
	Notes to financial statements	12
2016 Annual Report and Accounts of PGHC		
	The sections entitled " <i>Business review</i> ", " <i>Corporate activity and significant events</i> " and " <i>Events after the reporting date</i> "	2 – 3
	Independent Auditor's report	7
	Statement of comprehensive income	9
	Statement of financial position	10
	Statement of cashflows	11
	Statement of changes in equity	12
	Notes to financial statements`	13
2017 Annual Report and Accounts of the Group		
	The discussion and analysis for the financial year ended 31 December 2017 contained in the " <i>Business Review</i> " section	26-31
	Independent Auditor's report	94-102
	Consolidated income statement	103
	Statement of comprehensive income	104
	Pro forma reconciliation of Group operating profit to result	104

Reference Document	Information incorporated by reference	Page number in the reference document
	attributable to owners	
	Statement of consolidated financial position	105-106
	Statement of consolidated cashflows	107
	Statement of consolidated changes in equity	108
	Notes to the consolidated financial statements	110-181
	Glossary	204
2016 Annual Report and Accounts of the Group		
	The discussion and analysis for the financial year ended 31 December 2016 contained in the “ <i>Business Review</i> ” section	24 – 33
	Independent Auditor’s report	91 – 98
	Consolidated income statement	99
	Statement of comprehensive income	100
	Pro forma reconciliation of Group operating profit to result attributable to owners	100
	Statement of consolidated financial position	101 – 102
	Statement of consolidated cashflows	103
	Statement of consolidated changes in equity	104 – 105
	Notes to the consolidated financial statements	106 – 192
	Glossary	218 – 220

SUPPLEMENTAL PROSPECTUS

If at any time the Issuers are required to prepare a supplemental prospectus pursuant to Section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”), the Issuers will prepare and make available an appropriate amendment or supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the UK Listing Authority and Section 87G of the FSMA.

Each of the Issuers has given an undertaking to the Dealers in the Programme Agreement (as defined in “*Subscription and Sale*” herein) that it will comply with Section 87 of the FSMA and, if required by law, the Issuers shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms or Pricing Supplement. Words and expressions defined in “Terms and Conditions of the Senior Notes”, “Terms and Conditions of the Tier 3 Notes” and “Terms and Conditions of the Tier 2 Notes” below shall, as appropriate, have the same meanings in this overview.

Issuers	PGH Capital Public Limited Company (in relation to Senior Notes only). Phoenix Group Holdings.
Guarantor (in respect of Senior Notes issued by PGHC only)	Phoenix Group Holdings.
Description	Euro Medium Term Note Programme.
Size	Up to £3,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger	Citigroup Global Markets Limited.
Dealers	ABN AMRO Bank N.V. BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft HSBC Bank plc ING Bank N.V. J.P. Morgan Securities plc Lloyds Bank plc Merrill Lynch International Morgan Stanley & Co. International plc Natixis The Royal Bank of Scotland plc (trading as NatWest Markets) The Issuers may from time to time appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme or terminate the appointment of any dealer under the Programme in accordance with the Programme Agreement. References in this Prospectus to “ Permanent Dealers ” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	Citibank, N.A., London Branch.
Issuing and Paying Agent	Citibank, N.A., London Branch.
U.S. Paying Agent	The Issuers may from time to time appoint a U.S. paying agent (the “ U.S. Paying Agent ”) under the Programme.

Method of Issue

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the amount and date of the first payment of interest and date from which interest starts to accrue), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, date from which interest starts to accrue, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the applicable final terms document (the “**Final Terms**”) or the applicable pricing supplement document (“**Pricing Supplement**”).

Issue Price

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

Form of Notes

The Notes may be issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”).

Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year; otherwise such Tranche will be represented by a permanent Global Note. Global Notes may be issued in NGN form.

Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee or a common nominee, as the case may be, for one or more clearing systems are referred to as “**Global Certificates**”. Global Certificates may be issued in NSS form.

Clearing Systems

Clearstream, Luxembourg and Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Initial Delivery of Notes

On or before the issue date for each Tranche of Senior Notes, if the relevant Global Note represents Bearer Notes and is in NGN form, the relevant Global Note will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche of Senior Notes, if the relevant Global Certificates represent Registered Notes and are in NSS form, the relevant Global Certificates will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

On or before the issue date for each Tranche of Tier 2 Notes, Tier 3

Notes or Senior Notes (together, the “Notes”) (if the relevant Global Note is in CGN form), the relevant Global Note representing Bearer Notes or the Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers.

Maturities

Subject to compliance with all relevant laws, regulations, directives and requirements of the PRA, Dated Tier 2 Notes may have any maturity of no less than 10 years and Undated Tier 2 Notes will be perpetual and will not have a stated maturity.

Subject to compliance with all relevant laws, regulations, directives and requirements of the PRA, Tier 3 Notes may have any maturity of no less than 5 years.

Subject to compliance with all relevant laws, regulations and directives, Senior Notes may be issued with any maturity greater than one month.

Specified Denomination

Definitive Notes will be in such denominations as may be specified in the relevant Final Terms, save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes) and (ii) (x) where PGHC wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in full compliance with the conditions set out in Notice BSD C 01/02 dated 12 November 2002 (as amended from time to time) issued by the Central Bank of Ireland pursuant to section 8(2) of the Central Bank Act, 1971 (as amended) of Ireland, including, *inter alia*, that the Notes must be issued and transferable in minimum denominations of EUR 125,000 or the foreign currency equivalent and; (y) subject to the proviso above, unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination and

redemption price of £100,000 (or its equivalent in other currencies).

Fixed Rate Notes

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Pricing Supplement and will be calculated on the basis of such Day Count Fraction as specified in the relevant Final Terms or Pricing Supplement.

Fixed Rate Reset Notes

Fixed interest will be payable at the Initial Rate of Interest in arrear on the Interest Payment Date(s) in each year for an initial period as specified in the relevant Final Terms or Pricing Supplement. Thereafter, the interest rate may be recalculated on certain dates specified by reference to a Benchmark Gilt Rate or Mid-Market Swap Rate for the relevant currency, and for a period equal to the Reset Period, as adjusted for any applicable margin, in each case as specified in the relevant Final Terms or Pricing Supplement.

Fixed to Floating Rate Notes

Interest on the Fixed to Floating Rate Notes will bear a fixed rate of interest during the period from (and including) the Interest Commencement Date to (but excluding) the Fixed Period End Date specified in the relevant Final Terms or Pricing Supplement and from (and including) the Fixed Period End Date will bear interest on the same basis as Floating Rate Notes.

Floating Rate Notes

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or
- (ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms or Pricing Supplement.

Zero Coupon Notes (Senior Notes only)

Zero Coupon Notes (as defined in “*Terms and Conditions of the Senior Notes*”) may be issued at their nominal amount or at a discount to it and will not bear interest.

Interest Periods and Interest Rates

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Final Terms or Pricing Supplement.

Redemption

The relevant Final Terms or Pricing Supplement will specify the basis for calculating the redemption amounts payable.

Redemption of Tier 3 Notes and Dated Tier 2 Notes prior to their stated maturity is subject to satisfaction of the Regulatory Clearance Condition as more fully described in “*Terms and Conditions of the Tier 3 Notes – Redemption, Substitution, Variation, Purchase and Options*” or “*Terms and Conditions of the Tier 2 Notes – Redemption, Substitution, Variation, Purchase and Options*” (as applicable).

Undated Tier 2 Notes are perpetual and have no Maturity Date and are only redeemable or repayable subject to satisfaction of the Regulatory Clearance Condition as more fully described in “*Terms and Conditions of the Tier 2 Notes – Redemption, Substitution, Variation, Purchase and Options*”.

Optional Redemption

The Final Terms or Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed at the option of the relevant Issuer and/or (in the case of Senior Notes only) the holders and, if so, the terms applicable to such redemption. No Subordinated Notes may be redeemed at the option of the holders of such Notes.

Status of Senior Notes

The Senior Notes constitute direct, unconditional, unsubordinated and (subject to Condition 3(b) of the “*Terms and Conditions of the Senior Notes*”) unsecured obligations of the relevant Issuer.

Status of Subordinated Notes

The Tier 3 Notes will constitute unsecured and subordinated obligations of Phoenix and rank *pari passu* and without any preference among themselves. The claims of holders of Tier 3 Notes will rank in priority to the claims of holders of Tier 2 Notes and will rank junior to the claims of Senior Creditors (including holders of Senior Notes) in an Issuer Winding-Up and otherwise as set out in “*Terms and Conditions of the Tier 3 Notes*”.

The Dated Tier 2 Notes will constitute direct, unsecured and subordinated obligations of Phoenix and rank *pari passu* and without any preference among themselves. The claims of holders of Dated Tier 2 Notes will rank junior to the claims of Senior Creditors (including holders of Senior Notes and Tier 3 Notes) in an Issuer Winding-Up and otherwise as set out in “*Terms and Conditions of the Tier 2 Notes*”.

The Undated Tier 2 Notes will constitute direct, unsecured and subordinated obligations of Phoenix and rank *pari passu* and without any preference among themselves. The claims of holders of Undated Tier 2 Notes will rank junior to the claims of Senior Creditors (including holders of Senior Notes, Tier 3 Notes and (unless an Undated Notes Parity Election has been made) Dated Tier 2 Notes) in an Issuer Winding-Up and otherwise as set out in “*Terms and Conditions of the Tier 2 Notes*”.

Solvency Condition – Subordinated Notes

In relation to each Series of Subordinated Notes, other than in circumstances where an Issuer Winding-Up has occurred or is occurring (subject to Condition 3(c) of the relevant Terms and Conditions), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes or the Trust Deed shall be conditional upon the satisfaction of the applicable Solvency Condition (as that term is described in Condition 3(d) of the relevant Terms and Conditions) at the time for payment by Phoenix and immediately thereafter.

Interest Deferral – Subordinated

Applicable to the Tier 2 Notes only: if Optional Interest Payment

Notes	<p>Date is specified, Phoenix may on any Optional Interest Payment Date defer payments of interest on the relevant Series of Tier 2 Notes as more fully described in “<i>Terms and Conditions of the Tier 2 Notes – Deferral of Payments</i>”.</p> <p>Applicable to all Subordinated Notes: Phoenix is required to defer any payment of interest on such Subordinated Notes on each Regulatory Deficiency Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing) as more fully described in “<i>Terms and Conditions of the Tier 2 Notes – Deferral of Payments</i>” and “<i>Terms and Conditions of the Tier 3 Notes – Deferral of Payments</i>” (as applicable).</p>
Arrears of Interest – Subordinated Notes	<p>Any interest which is deferred in accordance with the Solvency Condition or mandatory deferral provisions contained in the Terms and Conditions of the Tier 3 Notes or the Tier 2 Notes or the optional deferral provisions contained in the Terms and Conditions of the Tier 2 Notes will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by Phoenix as provided in Condition 5(d) in respect of the Tier 2 Notes and Condition 5(c) in respect of the Tier 3 Notes.</p>
Redemption Deferral – Subordinated Notes	<p>Phoenix is required to defer any scheduled redemption of Subordinated Notes (whether at maturity (if any) or if it has given notice of early redemption in the circumstances described below in Conditions 6(c), 6(d), 6(e) and 6(f) of the relevant Terms and Conditions) if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the relevant Series of Subordinated Notes were redeemed, (ii) the relevant Series of Subordinated Notes cannot be redeemed in compliance with the Solvency Condition, or (iii) (if then required) the Regulatory Clearance Condition has not been satisfied or redemption cannot be made in compliance with the Relevant Rules at such time. See “<i>Terms and Conditions of the Tier 3 Notes – Redemption, Substitution, Variation, Purchase and Options</i>” or “<i>Terms and Conditions of the Tier 2 Notes – Redemption, Substitution, Variation, Purchase and Options</i>” as applicable.</p>
Negative Pledge – Senior Notes only	<p>Applicable to Senior Notes only. See “<i>Terms and Conditions of the Senior Notes – Negative Pledge</i>”.</p>
Early Redemption, Variation or Substitution for Taxation Reasons, Capital Disqualification Event and/or Ratings Methodology Event	<p>The Subordinated Notes may, subject as provided in Condition 5 of the relevant Terms and Conditions, be redeemed at their Optional Redemption Amount together with any accrued and unpaid interest to (but excluding) the date fixed for redemption and any Arrears of Interest at the option of Phoenix on any Optional Redemption Date (if any).</p> <p>In addition, upon the occurrence of a Tax Event, a Capital Disqualification Event, or a Ratings Methodology Event (if Ratings Methodology Call is specified) the Subordinated Notes may be (i)</p>

substituted for, or their terms varied so that they become, Qualifying Securities or Rating Agency Compliant Securities, whichever is relevant; or (ii) redeemed at the Special Redemption Price, together in each case with any accrued and unpaid interest and any Arrears of Interest, all as more particularly described in “*Terms and Conditions of the Tier 3 Notes – Redemption, Substitution, Variation, Purchase and Options*” or “*Terms and Conditions of the Tier 2 Notes – Redemption, Substitution, Variation, Purchase and Options*” as applicable.

The Senior Notes may, subject as provided in Condition 6(c) of the Senior Notes, be redeemed at their Optional Redemption Amount together with any interest accrued to (but excluding) the date fixed for redemption at the option of Phoenix if Phoenix becomes obliged to pay additional amounts in respect of withholding tax. See “*Terms and Conditions of the Senior Notes – Redemption, Substitution, Variation, Purchase and Options*”.

**Pre-conditions to redemption,
variation, substitution or purchase
– Subordinated Notes**

Any purchase of Subordinated Notes by Phoenix or any Subsidiary of Phoenix, any redemption of the Notes and any substitution or variation of the Notes will, if and to the extent then required by the Relevant Rules, be conditional upon: (i) each of Phoenix and the Insurance Group being in continued compliance with the Regulatory Capital Requirements (if any) applicable to them; (ii) Phoenix having complied with the Regulatory Clearance Condition; (iii) in the case of any redemption or purchase of the Notes prior to the relevant Capital Replacement End Date, the redemption or purchase being funded (to the extent then required by the PRA pursuant to the Relevant Rules) 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; and (iv) compliance with any other applicable requirements of the Relevant Rules regarding redemption, purchase, substitution or variation (as the case may be) of the Notes.

**Enforcement Rights –
Subordinated Notes**

In respect of each Series of Subordinated Notes, if default is made by Phoenix for a period of 14 days or more in the payment of any amount due under the Notes, the Trustee at its discretion may, and if so directed by one fifth in principal amount of the relevant Series of Notes then outstanding or if so directed by an Extraordinary Resolution shall (having been indemnified and/or secured and/or pre-funded to its satisfaction) institute proceedings for the winding-up of Phoenix but may take no further or other action to enforce, prove or claim for any payment by Phoenix in respect of such Notes, the Coupons or the Trust Deed.

In respect of each Series of Subordinated Notes, if an Issuer Winding Up occurs, the Trustee at its discretion may, and if so directed by one fifth in principal amount of the relevant Series of Notes then outstanding or if so directed by an Extraordinary Resolution shall (having been indemnified and/or secured and/or pre-funded to its satisfaction) prove in the winding-up or administration of Phoenix

and/or claim in the liquidation of Phoenix, but (in either case) may take no further or other action to enforce, prove or claim for any payment by Phoenix in respect of such Notes, the Coupons or the Trust Deed.

In respect of each Series of Subordinated Notes, the right to institute winding-up proceedings in respect of Phoenix is limited to circumstances where a payment under the Notes has become due and has not been paid by Phoenix. For the avoidance of doubt, unless an Issuer Winding-Up has occurred, no amount shall be due from Phoenix in those circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred in accordance with Condition 5(a) (if applicable), 5(b), 6(b) or 6(i) in respect of the Tier 2 Notes and Condition 5(a), 6(b) or 6(i) in respect of the Tier 3 Notes.

Withholding Tax

The relevant Issuer or, as the case may be in respect of Senior Notes issued by PGHC, the Guarantor will pay such additional amounts in relation to interest and Arrears of Interest (but not principal) as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature required by law in the Relevant Jurisdiction upon payments made by or on behalf of the relevant Issuer in respect of the Notes or by or as applicable on behalf of the Guarantor under the Guarantee, will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions – see “*Terms and Conditions of the Senior Notes*”, “*Terms and Conditions of the Tier 3 Notes*” and “*Terms and Conditions of the Tier 2 Notes*”.

Substitution of obligor and transfer of business

The Conditions permit the Trustee to agree to the substitution in place of the relevant Issuer or, as the case may be in respect of the Senior Notes issued by PGHC, the Guarantor of a Substituted Obligor without the consent of Noteholders.

If a Newco Scheme (as defined in the relevant Conditions) occurs, the relevant Issuer may, without the consent of Noteholders, at its option, procure that Newco is substituted under the Notes and the Trust Deed (i) in the case of Senior Notes issued by PGHC, as guarantor in place of the Guarantor or (ii) in the case of all Notes, as issuer of the Notes in place of the relevant Issuer.

Meetings of Noteholders

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

Governing Law

In relation to the Senior Notes, English law.

In relation to the Subordinated Notes, English law, save that the

provisions relating to the status and subordination of the Notes and waiver of set-off and the corresponding provisions of the Trust Deed will be governed by the laws of the Cayman Islands.

Listing

Applications have been made to list Notes (other than PD Exempt Notes) issued under the Programme for the period of 12 months from the date of this Prospectus on the Official List and to admit them to trading on the Market. PD Exempt Notes may be unlisted and/or may be admitted to trading on another market or stock exchange, as set out in the applicable Pricing Supplement.

Ratings

Tranches of Senior Notes, Tier 3 Notes, Dated Tier 2 Notes and Undated Tier 2 Notes may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not each/any rating applied in relation to a Series of Notes has been issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Selling Restrictions

U.S., EEA, UK, Republic of Italy, Hong Kong, Singapore, Switzerland and Ireland. See “*Subscription and Sale*”.

Each of the Issuers is Category 2 for the purposes of Regulation S.

The Notes will be issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the Code) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

See also “*Important Information – Volcker Rule*”.

RISK FACTORS

Each of PGHC and PGH believe that the following factors may affect their ability to fulfil their respective obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither PGHC nor PGH is in a position to express a view on the likelihood of any such contingency occurring.

Factors which PGHC and PGH believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Each of PGHC and PGH believe that the factors described below represent the material risks inherent in investing in Notes issued under the Programme but the relevant Issuer, and, failing whom (if applicable) the Guarantor, may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and each of PGHC and PGH do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

References in this section to the Group include references to the Enlarged Group.

Factors that may affect PGHC's and PGH's ability to fulfil their obligations (as appropriate) under Notes issued under the Programme include:

Risks relating to the Acquisition

The Acquisition is subject to a number of conditions which may not be satisfied or waived

Completion is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including PRA approval, the Central Bank of Ireland (“**CBI**”) approval, the approval by the holders of ordinary shares of PGH (the “**Shareholders**”) of the Acquisition as a reverse takeover and class 1 transaction under the Listing Rules, the approval by Standard Life Aberdeen shareholders of the Acquisition as a class 1 transaction under the Listing Rules, completion of a restructuring of the SLAL group and PGH receiving the proceeds of the rights issue announced by PGH on 23 February 2018 (the “**Rights Issue**”). Although PGH and each of the other parties to the Share Purchase Agreement has agreed to use reasonable efforts to satisfy each condition as promptly as practicable after signing the Share Purchase Agreement, there is no assurance that these (or other) conditions will be satisfied (or waived, if applicable) either at or before 31 December 2018 (or such other date as PGH and Standard Life Aberdeen may agree in writing) (the “**Long Stop Date**”), in which case the Acquisition may not be completed. No assurance can be given that all necessary approvals, clearances or conditions will be obtained, satisfied or waived and that the closing of the Acquisition pursuant to the Share Purchase Agreement (“**Completion**”) will take place. If the Acquisition does not complete, PGH would nonetheless have incurred significant costs (primarily due diligence, advisory and financing fees) in connection with the Acquisition. Failure to complete the Acquisition may materially adversely affect the business and financial condition of the Group and accordingly, the Group's operating results.

If the Acquisition does not complete, PGH might be liable to pay a break fee to Standard Life Aberdeen

Pursuant to the terms of the Share Purchase Agreement, PGH has agreed to pay a break fee of £30 million to Standard Life Aberdeen in certain circumstances, including where the Acquisition does not complete because the general meeting of PGH to be held on 29 May 2018 (the “**General Meeting**”) is not convened and held by 5.00 p.m. on 30 November 2018 or where, prior to the General Meeting, the directors of PGH (the

“**Directors**”) qualify, change or withdraw their recommendation that Shareholders vote in favour of the resolutions to be proposed at the General Meeting (the “**Resolutions**”) and the Shareholders do not then approve the Resolutions.

There can be no assurance that regulators or authorities will approve the Acquisition or not seek to impose new or more stringent conditions on the Group

If the PRA’s consent is given for the Acquisition, the PRA may impose conditions to Completion, changes to the terms of the Acquisition, or additional requirements, limitations or costs on the business of the Group. There can be no assurance that any such conditions or other legal or regulatory conditions or undertakings (including those imposed by other regulators or authorities) will not materially limit the revenues of the Group, impose additional regulatory capital requirements on the Group, restrict the ability of the Group to generate, distribute or release cash, increase the costs of the Group, reduce the ability of the Group to achieve cost and capital synergies and/or lead to the abandonment of the Acquisition or otherwise affect the Group’s practices. Such conditions and/or undertakings may materially adversely affect the Group’s business, results, financial condition and prospects.

The value of Standard Life Assurance may be less than the consideration paid

Prior to Completion, PGH has limited rights to terminate the Acquisition. In addition, a “locked box” consideration mechanism has been utilised in the Share Purchase Agreement whereby the consideration agreed to be paid at Completion has been determined by reference to an unaudited pro forma own funds balance sheet prepared as at 31 December 2017 in relation to Standard Life Assurance, such that PGH will take the economic risk and reward in relation to Standard Life Assurance from 31 December 2017. Accordingly, in the event that there is an adverse event affecting the value of Standard Life Assurance or the value of the Standard Life Assurance business declines prior to Completion, the value of the Standard Life Assurance business purchased by the Group may be less than the consideration agreed to be paid and, accordingly, the net assets and Own Funds of the Group following Completion (the “**Enlarged Group**”) could be reduced. PGH may therefore pay an amount in excess of market value for Standard Life Assurance, which could have an adverse effect on the business and financial condition of the Enlarged Group.

Standard Life Aberdeen will be issued a significant interest in PGH on Completion and its interests may not always be aligned with those of other Shareholders or holders of debt instruments issued by the Group (including the Notes)

On Completion, Standard Life Aberdeen will directly (in addition to its indirect shareholding as a result of its investment management business) own a strategic stake of approximately 19.99 per cent. of the Shares. As a result, Standard Life Aberdeen may, following Completion, possess voting power sufficient to have significant influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions.

As a result of Standard Life Aberdeen’s direct and indirect (as a result of its investment management business) shareholding in PGH, following Completion, Standard Life Aberdeen and PGH will be “acting in concert” for the purposes of the UK City Code on Takeovers and Mergers issued by the UK Panel on Takeovers and Mergers, as amended and Standard Life Aberdeen will also be a “related party” of PGH for the purposes of Listing Rule 11.

PGH and Standard Life Aberdeen have entered into a relationship agreement to regulate their relationship following Completion (the “**Relationship Agreement**”). Pursuant to the Relationship Agreement, for so long as Standard Life Aberdeen holds: (i) at least 15 per cent. of the Shares, Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) two non-executive directors to the board of directors of PGH (the “**Board**”); and (ii) at least 10 per cent. of the Shares (but less than 15 per cent.), Standard Life Aberdeen

shall be entitled to appoint (and remove and reappoint) one director to the Board. For the purpose of these calculations, any Shares held by Standard Life Aberdeen for the purposes of providing asset management services shall be excluded unless expressly stated otherwise. Notwithstanding that Standard Life Aberdeen has entered into the Relationship Agreement, the interests of Standard Life Aberdeen may not always be aligned with those of other Shareholders or holders of debt instruments issued by the Group (including the Notes) and it may, from Completion and for so long as it retains a substantial shareholding, have significant influence over all matters requiring shareholder approval, including the election of Directors and the approval of significant corporate transactions. In addition, Standard Life Aberdeen may hold interests in, or may make acquisitions of or investments in, other businesses that may be, or may become, competitors of the Enlarged Group.

For further information on the principal terms of the relationship agreement, see “*Information on the Group – Material Contracts – Standard Life Assurance Acquisition Agreements*”.

Risks relating to the Integration

The Group’s success will be dependent upon its ability to integrate the businesses it purchases into its existing businesses; there will be numerous challenges associated with the migration from Standard Life Aberdeen, integration of Standard Life Assurance and the synergies expected from integration may not be fully achieved

The operations of PGH’s current businesses and the Standard Life Assurance businesses will be integrated to form the combined operations of the Group over a period of at least three to four years. Whilst PGH has demonstrable experience in integrating businesses and is able to draw on its skilled resource pool, the scale of integration challenges relating to Standard Life Assurance will provide additional challenges for PGH’s businesses. Following the completion of: (i) the acquisition of AXA Wealth Limited’s (“**AWL**”) pensions and protections business (“**SunLife Embassy Business**”) in November 2016 (the “**AXA Acquisition**”); and (ii) the acquisition of Abbey Life Assurance Company Limited (“**ALAC**”), Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited (together, “**Abbey Life**”) in December 2016 (the “**Abbey Life Acquisition**”), full integration of these businesses is now substantially complete, with cost synergies of £27 million per annum, £10 million higher than the original target announced. However, Standard Life Assurance is a materially larger and complex business with a strong culture and strong brand identity relative to the other businesses previously acquired by PGH. Furthermore, the Share Purchase Agreement requires the parties to arrange for the transfer of employees and assets from Standard Life Aberdeen to Standard Life Assurance. The Group will be reliant upon these transfers to conduct the business of Standard Life Assurance. To the extent that the Group’s management is unable to efficiently integrate the operations within proposed timeframes, realise anticipated cost reductions, retain qualified personnel or customers and avoid unforeseen costs or delay, or the transfers of employees or assets are disrupted or do not occur, there may be an adverse effect on the business, results of operations, financial condition and/or prospects of the Group. Whilst the Issuers believe that the costs and synergies expected to arise have been estimated on a reasonable basis, more information may come to light following Completion, unanticipated events or liabilities may arise (whether as a result of a decision or action taken by a regulator with jurisdiction over the Group’s business or otherwise) which could result in a delay or reduction in the benefits derived from the integration, or an increase in costs significantly in excess of those estimated. The integration of the businesses will be supported by a management team with experience of large integration processes and cost reduction exercises. However, no assurance can be given that the significant integration process will deliver all or substantially all of the expected benefits or that benefits will be realised in a timely manner and the Group recognises that the relative scale, scope, geographies and number of employees in the Standard Life Assurance business, in comparison to the Group’s business, will give rise to additional complexity compared to prior acquisitions undertaken by the Group.

Under any of the foregoing circumstances, the growth opportunities, cost reductions, purchasing and distribution benefits, capital and other synergies anticipated may not be achieved as expected, or at all, or may be materially delayed. To the extent that the Group incurs higher integration costs or achieves lower synergy benefits than expected, its business, results of operations, financial condition and/or prospects may be adversely affected.

PGH has limited management resources and thus may become distracted or overstretched by the process of migrating/integrating Standard Life Assurance and managing the Group

The Group will be required to devote significant management attention and resources to migrating and integrating the Standard Life Assurance businesses. This activity may distract management from existing operational objectives for the Enlarged Group. Furthermore, Standard Life Assurance is a materially larger and more complex business relative to other businesses the Group has acquired and integrated in the past, which may require skills and expertise that the existing management team do not currently have, leading to unforeseen delays and an inability to achieve the required objectives. There is a risk that the challenges associated with migration and integration under any of the circumstances above, and/or those associated with other actual or potential acquisitions, may result in overstretch of management and the deferral of certain planned management actions. Consequently, the Group's business may not perform in line with management or shareholder expectations, which could have an adverse effect on the Group's business, results, financial condition and prospects.

Risks relating to the Group

Economy and Financial Markets

The Group's business is subject to risks arising from economic conditions in the United Kingdom and other markets in which it operates or in which its and its policyholders' investments are invested and from risks arising from the vote by the United Kingdom to leave the European Union, also known as "Brexit", and any possible future second referendum on Scottish independence

The Group's business is subject to risks arising from general and sector-specific economic conditions in the markets in which it operates or invests, particularly the United Kingdom, in which the Group's earnings are and will be predominantly generated and in which its and its policyholders' investments are predominantly invested. Although under drawdown or accumulation policies investment risks are often borne, in whole or in part, by its policyholders in accordance with the terms of the relevant policies, fluctuations in investment markets and the general rate of inflation will, directly and indirectly, affect the financial position of the Group including its value, reserving and regulatory capital requirements and results. In addition, the Group bears risk in respect of products where the benefits are not aligned with the investment performance of the assets which support them. Substantial decreases in the value of investments could lead to shareholder capital of Phoenix Life Limited ("PLL"), Phoenix Life Assurance Limited ("PLAL") and ALAC (each, a "**Phoenix Life Company**") and together the "**Phoenix Life Companies**") and/or Standard Life Pension Funds Limited ("SLPF"), SLAL and Standard Life International Designated Activity Company ("**SLIDAC**") (together the "**Acquisition Life Companies**") being required to meet obligations to policyholders and reserving and regulatory capital requirements and could restrict the ability of the Phoenix Life Companies and the Acquisition Life Companies to distribute dividends or release capital to service debt. Such decreases may also encourage policyholder retention to decrease, and withdrawals to increase, as policyholders seek to reduce their exposure to the Group's investments. Decreases in the value of investments could also require further capital to be held to cover pension scheme obligations.

The exact impact of market risks faced by the Group is uncertain, difficult to predict and respond to, in particular, in view of: (i) the unpredictable consequences of the vote by the United Kingdom to leave the

European Union, also known as “**Brexit**”; (ii) difficulties in predicting the rate at which any economic deterioration may occur, and over what duration; and (iii) the fact that many of the related risks to the business are totally, or partly, outside the control of the Group.

As part of contingency planning for Brexit, Standard Life Assurance intends to transfer its Irish and German branches into SLIDAC (a wholly-owned Irish subsidiary of Standard Life Assurance, which will be part of the Enlarged Group) by way of a Part VII transfer in early 2019. Standard Life Assurance estimates indicate that this will have an increased capital requirement in SLIDAC of approximately £250 million under their central scenario.

Furthermore, Brexit has adversely affected the global markets. Brexit, and the final departure of the United Kingdom from the European Union, could further lead to volatility in the value of securities listed on the Regulated Market, including the Shares.

The Standard Life Assurance businesses have significant operations situated in Scotland. Scotland’s First Minister has called for a second referendum on Scottish independence from the rest of the United Kingdom. On 27 June 2017, the First Minister confirmed that the Scottish government would not seek to introduce legislation for a referendum immediately, but indicated that a proposal would be placed before the Scottish Parliament likely around autumn 2018. It is uncertain whether any such referendum will in fact occur, what the outcome would be, and, if a referendum occurred and Scotland voted to leave the United Kingdom, what Scotland’s future relationship with the rest of the United Kingdom and the European Union (the “**EU**”) would be. The consequences of a potential future referendum on the Standard Life Assurance businesses are therefore uncertain.

The Standard Life Assurance businesses also operate through branches in Ireland and Germany (with approximately £17 billion of assets under administration (“**AUA**”) as at 31 December 2017, representing approximately 10 per cent. of its total AUA). As a result, economic conditions in Ireland and Germany will be of greater significance to the Group, which could be adversely affected by factors such as the nature of the UK-Ireland border after Brexit and the coalition government in Germany.

Economic conditions in the United Kingdom and other markets in which the Group operates or in which the Group’s and their policyholders’ investments are invested could therefore have a material adverse effect on the Group’s business, results, financial condition and prospects.

Competition, regulatory restrictions and an inability to raise acquisition financing in the future may make it difficult for the Group to execute its M&A strategy and future acquisitions and disposals, which could have an adverse effect on the Group

The Group’s strategy includes the disciplined acquisition of closed life fund companies and portfolios in order to offset the natural decline inherent in a largely closed book business as well as to grow the business and create additional value from scale advantages.

The Group’s ability to acquire closed life fund companies and portfolios will depend upon a number of factors, including its ability to identify suitable acquisition opportunities, its ability to consummate acquisitions on favourable terms and the Group’s ability to obtain financing to make acquisitions and support growth (for example, through new business or bulk purchase arrangements). Additionally the Group’s ability to obtain required regulatory consents from the FCA and PRA and other relevant regulatory authorities for acquisitions, disposals and insurance business or portfolio transfers (including under Part VII of FSMA) will depend on, amongst other things, the financial condition of the Group, the financial implications of any acquisition of the Group, the impact of such implications on new and existing policyholders and wider risks to policyholder security.

There are other closed life fund consolidators as well as a number of other potential purchasers for closed life companies, including other insurance companies, banks, hedge funds and private equity firms, which may result in increased competition (and therefore higher prices paid). External factors which influence sector participants' decisions to seek to dispose of their insurance interests could also impact the Group's ability to make acquisitions.

In connection with any future acquisitions, the Group may experience unforeseen difficulties as it integrates the acquired companies and portfolios into its existing operations. These difficulties may require significant management attention and financial resources.

In addition, future acquisitions involve risks more generally, including:

- due diligence investigations not identifying material liabilities or risks within the acquired business or adequately assessing the value of the acquired business;
- difficulties in integrating the risk, financial, technological and management standards, processes, procedures and controls of the acquired business with those of the Group's existing operations;
- challenges in managing the increased scope and complexity of the Group's operations;
- triggering or assuming liabilities, including employee pension liabilities;
- failure to achieve the anticipated benefits and synergies from acquisitions;
- distraction of management from existing businesses;
- unexpected losses of key employees of the Group and the acquired business;
- the value of any acquired business being less than the consideration paid as a result of adverse events affecting the value;
- changing the structure of the Group, which may result in a reduction in brought forward tax losses; and
- PGH being placed under negative watch by rating agencies or losing its investment grade rating due to the inherent risks of acquisitions such as an increase in leverage ratio and the failure to successfully integrate acquisitions.

If the Group decides to dispose of a company which it owns, or the business or assets of such a company, such as a block of annuities, there is no guarantee that it will find a purchaser for such a company, business or assets, or that a potential purchaser will have the same view of the value of such company, business or assets. In addition, significant acquisitions and disposals by the Group may require the consent of the Group's bank lenders or pension trustees and there can be no assurance that the Group would be able to obtain such consents. Any of these factors may mean that the Group is unable to realise the target value of such company, business or assets.

If the Group is unable to acquire additional closed life fund companies and portfolios in line with its strategy or successfully meet the challenges associated with any future acquisitions or disposals, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

Significant declines in equity markets, bond markets or property prices, or significant movements in swap yields relative to gilt yields, could have an adverse effect on the Group

As at 31 December 2017, funds of the Phoenix Life Companies were invested as follows: 39 per cent. in government, supranational, corporate debt and other fixed income securities; 15 per cent. in cash and cash equivalents; 30 per cent. in equity securities; 2 per cent. directly in property; and 14 per cent. in other investments.

As at 31 December 2017, funds of Standard Life Assurance were invested as follows: 34 per cent. in government, supranational, corporate debt and other fixed income securities; 5 per cent. in cash and cash equivalents; 30 per cent. in equity securities; 5 per cent. directly in property; and 26 per cent. in other investments.

Although, subject to certain guaranteed benefits (see paragraph below), policyholders bear most of the impact of falls in equity, debt and property values in accordance with the terms of their policies, significant decreases in the market prices of the Group's equity, debt and property investments could reduce the amounts available to fund its long-term policyholder obligations. This, in turn, could increase liquidity risks and could lead to shareholder capital of the Phoenix Life Companies and Acquisition Life Companies being retained or shareholder capital available within the Group being required to be injected into the Phoenix Life Companies and/or the Acquisition Life Companies to meet obligations to policyholders and regulatory capital requirements. Further capital could also be required to cover the Group's pension scheme obligations. See *"The Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes for employees if the value of or cashflows from pension fund assets is not sufficient to cover future obligations under the schemes"*.

Certain of the benefits due to policyholders do not track the performance of the underlying investments held in respect of their policies, in particular some of the Group's annuity policies, protection policies, with-profit policies and a number of the Group's unit linked policies offer guaranteed benefits which are uncorrelated to investment performance. These policies increase the Group's financial exposure to investment risk because members of the Group are exposed to the mismatch between performance and the benefits it has to offer policyholders. The Group has implemented hedging arrangements which seek to protect it to an extent against declines in equity markets but not all investment exposure is hedged and it may not be possible, feasible or desirable to hedge such exposure in the future. To the extent that these exposures have not been hedged, the Group may have to meet the mismatch between the benefits to be paid under the policies and the performance of the underlying assets.

Relative movements in credit spreads, gilt yields and swap yields may affect the calculated value of the assets and liabilities of the Group and different financial and actual metrics which are applied to the Group (including those in this Prospectus) will respond in different ways. For example, the market value of the Group's holdings in gilts will move in line with changes in gilt yields, whereas the Group's holdings in certain other assets such as swaps, swaptions and other derivatives will move in line with swap yields. For reporting under Solvency II, and the calculation of reserving and regulatory capital, the Group's liabilities generally move in line with swap yields. Changes in the relative swap yields versus gilt yields could therefore have adverse impacts on the Group's regulatory capital position and its Own Funds, and the impacts may not move in a linear fashion. The Group implements hedging arrangements which seek to partially mitigate some changes in relative yields but not all exposure is hedged and it may not be possible, feasible or desirable to hedge all such exposures in the future. Similarly, movements in credit spreads may also adversely impact on the Group's capital and profit positions. Asset valuations change by reference to the entire change in the credit spread, whereas the liability calculation may only reflect part or none of the movement in credit spread depending on the type of business and the metric being considered.

PGH holds a portfolio of approximately £2.5 billion of illiquid credit assets (including lifetime mortgages, local authority loans, commercial real estate loans, and infrastructure debt), and PGH's business plan targets further material investments in illiquid credit assets in the future. A significant decline or sustained future declines in UK residential house prices could cause losses on the lifetime mortgages portfolio, which is secured on residential property. Future adverse deviations in the mortality or voluntary repayment experience of lifetime mortgage borrowers could also cause losses on the lifetime mortgages portfolio. The performance

of PGH's illiquid credit asset portfolio is sensitive to movements in interest rates, credit spreads and credit default experience.

Other EU countries may seek to conduct their own referenda on their continuing membership of the European Union or other issues (for example, Catalan independence). Brexit, other referenda or political instability could adversely affect United Kingdom, European or worldwide economic or market conditions and could contribute to instability and volatility in global financial markets, which could act as a drag on the relative valuations of United Kingdom equities or other companies making use of the European single market, with a negative impact on insurers, such as the Group whose assets are exposed to United Kingdom and other markets. Economic and political instability may also impact on foreign exchange and interest rates, which will also have an impact on the value of an insurer's investment portfolio, or any collateral that it holds. The Group's European business will generate profit in Euros and will accordingly be exposed to any devaluation in the currency.

Any significant declines in equity markets, bond markets, interest rates (including for sovereign debt) or property prices, or significant movements in swap yields relative to gilt yields or credit spreads, and corresponding changes to reserving and regulatory capital requirements, could therefore have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group may be adversely affected by changes in interest rates and inflation risks

The Group's exposure to interest rate and inflation risks relates primarily to the variability of market prices and cashflow of assets relative to liabilities associated with changes in interest and inflation rates.

The Group's obligations to pension schemes and policyholders vary as interest rates fluctuate as they are discounted based on the level of long-term interest rates. As a result, a reduction in long-term interest rates or negative interest rates increases the amount of the Group's liabilities. The Group attempts to match a significant proportion of its liabilities with assets whose sensitivity to interest rates is the same as, or similar to, that of the underlying liabilities. However, to the extent that such asset-to-liability matching is not practicable or fully achieved, there may be differences in the impact of changes in interest rates on assets and liabilities, which could have a material adverse effect on the Group's business, results, financial condition and prospects. Changes to inflation rates could also have an adverse impact on the Group primarily as a result of increased pension scheme obligations or where a Group member holds policies which afford customers inflation linked benefits.

The Group's with-profit funds are exposed to additional interest rate risk as the funds' guaranteed liabilities are valued based on market interest rates, with the funds' investments including fixed-interest investments and derivatives. As a result, declines in interest rates or negative interest rates could materially decrease the amount of distributions from the Group's with-profit funds which are available to policyholders, and this could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Phoenix Life Companies and the Acquisition Life Companies are required to hold a risk margin under Solvency II. This risk margin will increase significantly if there is a material fall in long term interest rates. The Phoenix Life Companies and the Acquisition Life Companies expect to be able to offset the impact of such a fall through applying to the PRA (or the CBI, in the case of SLIDAC) for a recalculation of the transitional measures on technical provisions. If the PRA (or the CBI, in the case of SLIDAC) does not approve such a recalculation, then the impact of such a fall would be greater.

On 23 July 2014, PGH entered into a credit agreement between PGH (as guarantor), PGHC (as borrower) and Commerzbank Finance & Covered Bond S.A. (formerly known as Commerzbank International S.A.) (as agent), among others, dated 23 July 2014, as amended and restated on 21 March 2016, 24 October 2016, 20 February 2017 and 30 March 2017 (the "**Revolving Credit Agreement**"). Under the Revolving Credit

Agreement, the lenders have made available a multicurrency revolving loan facility in an aggregate principal amount equal to £900 million, which bears a floating rate of interest, although it is currently undrawn.

On 23 February 2018, PGH entered into a £900 million backstop revolving credit agreement (the “**Backstop Revolving Credit Agreement**”). Under the Backstop Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest and which can only be utilised if the Revolving Credit Agreement has been cancelled. On 23 February 2018, PGH also entered into a £600 million acquisition facility agreement (the “**Acquisition Facility Agreement**”). Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million, which bears a floating interest rate. As at the date of this Prospectus, both of the Backstop Revolving Credit Agreement and the Acquisition Facility Agreement were undrawn.

Movements in interest rates can impact the price of fixed rate debt or the interest cost of variable rate debt (if any). Due to the long-term nature of the liabilities of the Phoenix Life Companies and the Acquisition Life Companies, sustained declines in long-term interest rates and negative interest rates may also subject the Group to reinvestment risks and increased hedging costs. Declines in credit spreads may also result in lower spread income. During periods of declining interest rates, issuers may prepay or redeem debt securities that the Group owns, which could force the Group to reinvest the proceeds at materially lower rates of return. This could, in the absence of other countervailing changes, cause a material increase in the net loss position of the Group’s investment portfolio, which could have a material adverse effect on the Group’s business, results, financial condition and prospects.

Defaults in relation to investments and financial investments and by counterparties may adversely affect the Group

The Group is exposed to counterparty risk. Such counterparty risk may be manifested in deterioration in the actual or perceived creditworthiness of, or default by, issuers of the securities or other financial instruments forming part of the Group’s investments. For instance, assets held to meet obligations to policyholders include corporate bonds and other debt securities. Counterparty risk may also include the risk of counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements, or bulk purchase agreements or derivative counterparties or stock borrowers failing to pay as required. Counterparty defaults could have a material adverse effect on the Group’s business, results, financial condition and prospects. An increase in credit spreads, particularly if it is accompanied by a higher level of issuer defaults, could have a material adverse impact on the Group’s financial condition although some of this risk is shared with policyholders.

Furthermore, securities which have been loaned could be redelivered and it may then prove difficult or impractical to return collateral held against those securities in the event that this collateral had been reinvested in assets which have become illiquid.

In the event of a counterparty becoming distressed or insolvent the applicable insolvency regime and/or regulatory resolution regime may apply, potentially resulting in the Group receiving less than a full recovery in respect of amounts due to it. In addition, in the case of bulk purchase agreements (some of which are high value contracts), the Pensions Regulator, as established under section 1 of the Pensions Act 2004 (the “**Pensions Regulator**”), may adjust the relevant contract or the liabilities under the contract, potentially resulting in negative outcomes for the Group.

Additionally, the underlying collateral supporting a counterparty’s securities-redelivery obligation could be invested by collateral managers in a manner that breaches the terms of their investment mandates, causing the

Group to incur losses on its securities-lending transactions, with potential material adverse effects on the Group's business, results, financial condition and prospects.

Any downgrade of the Group's credit rating could increase its borrowing cost and weaken its markets position.

Given the existing indebtedness in the Group and its acquisitive nature, the Group is dependent on its ability to access the capital markets and its cost of borrowing in these markets is influenced by the credit rating supplied by Fitch. Any downgrading of the credit rating could increase the Group's borrowing cost and may weaken its position in the market. Changes in the methodology and criteria used by Fitch could result in downgrades that do not reflect changes in general economic conditions or the financial condition of the Group.

Regulatory Risks

The Group operates in a regulated sector and its operations and practices may be affected by changes in law and regulation, changes in interpretation or emphasis with respect to existing law and regulation and/or industry wide changes in approach to law and regulation

The Group operates in the life and pensions sector in several jurisdictions, which, in each case, are the subject of continued legal and regulatory change. The legal and regulatory environments in which the Group operates may change, meaning that the Group has to change its practices. Such change can come in the form of a change in law or regulation. For example, (i) Solvency II (which became effective on 1 January 2016) increased the capital requirements on the Phoenix Life Companies and (ii) the General Data Protection Regulation (EU) 2016/679 (the "GDPR") (which will become effective on 25 May 2018) will increase the territorial scope of the existing EU data protection framework and impose stronger sanctions on those who breach it, amongst other things. Alternatively, a relevant regulator may reinterpret or place new emphasis on an existing piece of law or legislation. A good example of this is the thematic review on long-standing customers. See "Risk Factors – Risks relating to the Group – The thematic review on the fair treatment of long-standing customers in the life insurance sector may affect the Group's business" and "Risk Factors – Risks relating to the Group – The thematic review on annuity sales practices may affect the Group's business" below.

In the United Kingdom, a number of significant changes to law and regulation are currently being proposed or have relatively recently been implemented. In the pensions sector, the effect of certain new laws and regulations has not yet been fully realised, in part because the new laws and regulations may change customer behaviours. Of particular note are the series of legal, tax and regulatory changes that are described as "pensions freedoms". One of the Group's main lines of business is the management of customers' pension policies and the provision of annuities. Historically, the United Kingdom's tax regime provided favourable tax treatment for individuals who saved using their pension policies, but then limited the manner in which that tax treatment could be preserved except through the purchase of an annuity. In 2014, the government set in train reforms relating to how people are able to access their pension savings, part of the so called "pension freedoms". On 1 April 2015, wide-ranging reforms of United Kingdom pensions legislation came into effect, including the cessation of the requirement for pension benefits to be taken in the form of an annuity and a requirement for customers to receive guidance on their options at the time of retirement. The advent of these freedoms resulted in a reduction in annuity sales. It is also possible that (as has happened since the advent of the reforms) there may continue to be a reduction in customer retention in particular when a customer with a pension policy decides to buy an annuity. In addition, the United Kingdom government has announced a "pensions dashboard" proposal, which is expected to apply from 2019. This will allow customers to view all of their pension policies (across multiple providers). The Group is monitoring and projecting the impact of these reforms on its business, but the true impact will only become clear once relevant laws and regulations

are implemented and, following that, a stable pattern of customer experience has emerged. Although, there is no directly equivalent legislation in Ireland and Germany in relation to 'pension freedoms' and the introduction of a 'pensions dashboard', as in the UK, the relevant legal and regulatory landscape is subject to significant and continuous change.

In addition to the already changing regulatory landscape, it is anticipated that Brexit may result in changes to the United Kingdom and European Union's regulatory system. While the business of the Group primarily is situated in the United Kingdom, some of the changes to the regulatory system may affect the business of the Group (positively or negatively). Changes to law and regulation may also affect the regulation of United Kingdom business if the United Kingdom and European Union regulatory systems diverge. As a result, it is possible that Brexit may require the Group to take mitigating action, or to change parts of its business.

The Phoenix Life Companies and SLAL make use of their passporting rights to service customers situated in member states of the European Union (other than the United Kingdom). Any negative change in barrier-free access between the European Union and the UK (for example, as a result of the European Union and the UK failing to agree terms for Brexit) may also affect the ability of the Group to rely on European Union market freedoms, in particular the free movement of services pursuant to Article 56 of the Treaty on the Functioning of the European Union and thus the operations and ongoing profitability of the Group. In particular, the ability of SLAL to service its German and Irish policies and policyholders may be impaired once the United Kingdom leaves the European Union. To address the risks associated with the loss of SLAL's passporting rights, it is intended that SLAL will transfer to SLIDAC (a wholly-owned Irish subsidiary of Standard Life Assurance, which will be part of the Group) all policies relating to existing customers in Ireland, Germany and Austria. Where such policyholders are situated outside Ireland, SLIDAC will be able to use its passporting rights to administer the transferring policies. This will limit the extent to which the limitation or cancellation of SLAL's passporting rights impacts the ability of the Group to continue to operate the aforementioned policies. In effect, after the transfer, the Group will not be reliant on SLAL's passporting rights; instead it will use SLIDAC's. In addition, a variation to SLIDAC's regulatory permissions is necessary for it to be able to administer certain of the transferring policies. While it is anticipated that the transfer of the policies (and any necessary attendant variation of permissions) in question will occur prior to the United Kingdom leaving the European Union, it is possible that the transfer may be delayed and SLAL's ability to operate such policies will be impaired.

The Group's main regulators are the PRA and the FCA in the United Kingdom. Outside the United Kingdom, SLIDAC is authorised and regulated in Ireland by the CBI. The Group also conducts business outside the United Kingdom and Ireland and the law and regulations of a number of other jurisdictions also apply to the Group. These jurisdictions include (but are not limited to) Hong Kong, Germany, Austria, Jersey, the Cayman Islands and the United States. In particular, it is intended that SLIDAC will sell and administer a significant number of products in Germany via a branch, which will result in SLIDAC having a presence in Germany. As a result, the Group may be subject to greater regulatory oversight by German regulators in respect of its activities in the German market even though the Group does not have an authorised subsidiary in Germany. Law and regulation (and its interpretation) may change in any of the jurisdictions in which the Group operates or conducts business.

As a result, existing law and regulation (where the economic or other impact has not yet been fully realised), changes in law and regulation, changes in interpretation or emphasis in respect to existing law and regulation, industry wide changes in approach to regulation, and/or any failure by the Group to comply with applicable law and regulation, may individually or together have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is subject to potential intervention by the FCA, the PRA, the CBI, BaFin and other regulators on industry-wide issues and to other specific investigations, reports and reviews

Members of the Group are regulated by the PRA, the FCA and the CBI. The PRA and FCA each has significant statutory powers in respect of the regulation of the Phoenix Life Companies, SLAL and the other regulated entities in the Group. While regulating the Phoenix Life Companies, SLAL and other regulated entities in the Group, the PRA, the FCA, the CBI and other regulators may make regulatory interventions using such powers, including through investigations, requests for data and analysis, interviews or reviews (including skilled persons reports under section 166 of FSMA). In recent years, the PRA, the FCA and the CBI have each adopted an approach of intensive supervision in respect of the life and pensions sector. This is expected to continue. As a result, the Group believes the incidence of regulatory interventions is likely to increase or remain the same.

The PRA, the FCA and the CBI may also carry out formal “thematic reviews” which are sector wide reviews or other informal sector wide inquiries in respect of a theme or common issue or a particular type of product. While these are not expressly targeted at only the Group, the Group has participated in, and expects to continue to participate in, such reviews from time to time.

Regulatory intervention, including of the sort described above, may lead to the FCA, the PRA and/or the CBI (and other relevant regulators or bodies) requiring:

- specific remediation in respect of historic practices (which could include compensating customers, fines or other financial penalties);
- changes to the Group’s practices;
- public censure; and/or
- the loss or restriction of regulatory permissions necessary to carry on the Group’s business in the same manner as before, as well as changes to the Group’s existing practices.

Certain companies in the Group, including the Phoenix Life Companies, the Acquisition Life Companies and other regulated entities in the Group, are subject to regulation in foreign jurisdictions resulting in potential policyholder claims and regulatory intervention in those jurisdictions. In particular, while no member of the Group is authorised in Germany, SLAL has (and SLIDAC will have following the relevant Part VII transfer) a significant German business. The sale of life and pensions products in Germany is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

Such regulatory interventions could have a material adverse effect on the Group’s business, results, financial condition and prospects, as well as damaging the Group’s reputation.

Individual and groups of customers may refer their disputes with the Group to the Financial Ombudsman Service

Disputes relating to the sale of financial services products by the Group in the United Kingdom are subject to the Financial Ombudsman Service (“FOS”) regime. The FOS exists to resolve disputes involving individual or small business policyholder disputes. Applicants may pursue customary legal remedies if decisions are considered unacceptable. In addition to the FOS, certain of the Phoenix Life Companies, the Acquisition Life Companies and other regulated entities within the Group are subject to foreign regulation and may fall under the jurisdiction of a non-United Kingdom body similar or equivalent to the FOS.

From time to time, decisions taken by the FOS (or its United Kingdom equivalent) may, if extended to a particular class or grouping of policyholders, have a material adverse effect on the Group’s business, results, financial condition and prospects.

Regulatory capital and other requirements may change

Firms that are authorised to underwrite insurance, like the Phoenix Life Companies, SLIDAC and SLAL, are required to maintain reserves of assets to match their best estimate of their liabilities under the policies they have written. The excess of assets over liabilities is called “Own Funds”, with specific rules about what types of asset are eligible and the proportion of Own Funds that each type of eligible asset may represent. Such firms are also required to maintain sufficient Own Funds to meet the SCR under the Solvency II regime, under a standardised formula or an Internal Model (as described below). PRA has approved an agreed methodology and model to calculate the Group SCR pursuant to Solvency II (the “**Solvency II Internal Model**”). Also, the Group maintains capital at target levels over and above a Group SCR, in accordance with its stated risk appetite. If the Group’s excess over SCR is below these target levels, discretionary payments outside of the Group could continue to be made. However, the Board would need to consider the circumstances leading to the shortfall, the expected timeline for restoring the Group’s solvency capital to the target levels, as well as implications for other key financial metrics.

Since 1 January 2016, the Phoenix Life Companies, SLIDAC and SLAL have been required to carry out regulatory capital calculations under Solvency II, as described in “*Regulatory Overview - Solvency II*”. The supervision of the Phoenix Life Companies’ and SLAL’s regulatory capital requirements is carried out by the PRA and the CBI carries out the same function for SLIDAC. Any existing regulations may be amended in the future or new regulations may be implemented. See “*Regulatory Overview - Regulation applicable to the Group’s insurance business*”. In particular, the regulatory capital and/or reserving position applicable to the Phoenix Life Companies, SLAL and SLPF may be modified by four matters which are within the PRA’s discretion and which the Phoenix Life Companies, SLAL and SLPF (as applicable) could lose the benefit of: (i) a Solvency II Internal Model; (ii) the Matching Adjustment (as defined below); (iii) the Volatility Adjustment (as defined below); and (iv) the application of transitional provisions, as described below.

- *Solvency II Internal Model:* Solvency II requires that a separate “solo” SCR is determined for each authorised insurance company. In addition, Solvency II applies a group SCR, which takes into account the regulatory capital requirements of the Phoenix Life Companies, as well as certain features, strengths and weaknesses of the wider Group. The PRA has approved a Solvency II Internal Model in respect of the existing Group. The PRA has also approved a Solvency II Internal Model for SLAL and SLPF. The Group intends to work with the PRA to harmonise to a single Solvency II Internal Model in the future, which incorporates Standard Life Assurance within it. It is possible the Group may need to increase its capital requirements to meet this objective. Alternatively, it may be unable to agree changes to a single harmonised Solvency II Internal Model with the PRA in the future, which could mean maintaining two internal models and/or requiring to hold additional capital as applied by the PRA to reflect the risk profile of the Group. This could significantly increase the amount of regulatory capital the Phoenix Life Companies, SLAL, SLPF and/or other members of the Group have to hold.
- *Matching Adjustments:* The Phoenix Life Companies and SLAL apply a “matching adjustment” to certain long-term liabilities that are closely matched by an assigned matching adjustment portfolio of assets of equivalent nature, term and currency (“**Matching Adjustment**”). This Matching Adjustment partially mitigates the sensitivity of the balance sheet to changes in the market prices of assets held in the assigned matching adjustment portfolio, in funds where the Matching Adjustment is approved. The Matching Adjustment is subject to strict criteria and ongoing compliance in relation to maintenance of close matching, asset and liability characteristics and segregation of the management of the assigned matching adjustment portfolios. The Phoenix Life Companies and SLAL have permission from the PRA to apply the Matching Adjustment in respect of certain agreed portfolios of liabilities, thereby reducing the reserves and capital requirements associated with such liabilities. This may change in the future.

- *Solvency II Volatility Adjustments:* SLAL applies a “**Volatility Adjustment**” to substantially all of its long term liabilities other than unit linked liabilities and liabilities to which a matching adjustment has already been applied. The purpose of the Volatility Adjustment is to prevent the requirement for market-consistent valuation of assets and liabilities under Solvency II from disincentivising insurers from investing in assets that it would otherwise be appropriate for the insurer to hold, taking into account the nature and duration of their insurance liabilities. The Volatility Adjustment aims to mitigate ‘artificial’ balance sheet volatility caused by short-term market volatility in the value of assets by allowing insurers to reflect movements to those asset prices within the market-consistent valuation of the corresponding liabilities. SLAL has received permission from the PRA to apply the Volatility Adjustment, which reduces the reserving and capital requirements associated with the liabilities. The level of the adjustment is prescribed by EIOPA and may change in future.
- *Transitional Provisions:* Solvency II increased the regulatory capital requirements and reserving requirements on the Phoenix Life Companies and SLAL. However, some of these increases have been partly mitigated by the introduction of transitional provisions, which are designed to ensure a smooth transition from Solvency I (the old regime) to Solvency II (the new regime). The benefit of the transitional provisions will be phased out over a 16-year period from 1 January 2016. There remains some uncertainty over the pace of run-off within that period, in particular in circumstances where the transitional provisions are required to be recalculated due to a future material change in the risk profile of the Phoenix Life Companies and SLAL.

The Issuers are not aware of any current matters or circumstances that might reasonably be expected to result in the Phoenix Life Companies or SLAL losing or not obtaining (as applicable) the benefit of the discretionary matters set out above.

An increase in the regulatory capital and/or reserving requirements of an entity or a restriction on the use of capital within the Group, or a reduction in the value of the Own Funds that can be used to meet such requirements, may reduce the profits of the Group or trap cash or assets in certain Group companies. There are also circumstances where the Group may choose to move cash or assets from another part of the Group to meet an increased regulatory capital requirement. Consequently, a change in the regulatory capital and/or reserving requirements applied to certain Group companies, and in particular the loss of (or the failure to obtain) certain discretionary reductions in those requirements in respect of the Phoenix Life Companies, SLAL and SLPF, could have a material adverse effect on the Group’s business, results, financial condition and prospects.

The thematic review on the fair treatment of long-standing customers in the life insurance sector may affect the Group’s business

The Phoenix Life Companies and SLAL charge customers “exit charges” upon change of provider and “paid up charges” (in the case of the Phoenix Life Companies) upon cessation of payment of regular premia. These charges apply when customers switch their pension policies to another provider or realising their pension benefits prior to their specified retirement date (where a customer is over 55 years of age and therefore eligible to realise some of the benefits from its pension pot). On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. The FCA found a “mixed picture” where most firms reviewed demonstrated good practice in some areas but poor practice in others. A small number of firms were found to be delivering poor customer outcomes across a majority of the areas assessed. In particular, the FCA had concerns about:

- the lack of board and senior management oversight of closed book customers and outcomes;

- whether customers were aware of the effect of exit and paid-up charges on their policies and the quality of information provision on the economic effect of exit and paid-up charges;
- firms' behaviour, policies and attitudes towards applying exit charges;
- the impact of exit and paid-up charges on customers shopping around and customer choice;
- the absence, within most firms, of a review of products (and related charges) to assess whether customers were getting fair outcomes; and
- where there are product reviews, over-reliance or overemphasis on compliance with contractual terms and conditions even where actual customer detriment is identified.

In December 2016, the FCA published its final guidance on the basis of its thematic review, setting out its expectations on life insurance firms to ensure that their closed-book customers are treated fairly. Firms are expected to identify the outcomes they believe are fair to deliver to their customers and, where poor customer outcomes are identified, take steps to address them. This guidance will apply to the Phoenix Life Companies' and SLAL's policies and customers. The FCA has also notified ALAC of its final conclusions regarding the outcome of the review. Following this, ALAC has agreed a number of actions with the FCA to address the findings from the thematic review including enhancements to communications, a programme of product reviews and further work to reduce the volume of "goneaway" customers. Significant progress has been made and a number of items addressed. Work continues to address the outstanding points.

A number of the firms which are the subject of the review are now the subject of additional FCA investigations, to explore whether remedial and/or disciplinary action is necessary or appropriate in respect of exit or paid up charges being applied. ALAC is one of these firms. Additionally, ALAC is one of two firms being investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. This investigation into wider contraventions of regulatory requirements focuses on behaviour from December 2008. The FCA has stated that these investigations are designed to establish the reasons for the practices within firms, whether customers have suffered detriment as a result and how widespread any practices are within these firms.

The FCA has not yet notified ALAC of its final conclusions regarding the outcome of the enforcement investigation. It is possible that, as a result of the investigation, ALAC may incur costs as a result of financial penalties (which may be incurred shortly after the FCA publishes its final conclusions) and/or other costs associated with the FCA's findings. Deutsche Bank AG ("**Deutsche Bank**") has provided Phoenix Life Holdings Limited ("**PLHL**") with an indemnity, with a duration of six years, in respect of such exposures. The maximum amount that can be claimed under the indemnity (when aggregated with claims under the indemnity in respect of the thematic review on annuity sales practices, as discussed further below) is £175 million and it applies to all regulatory fines and 60 to 90 per cent. of the costs of customer remediation. While this indemnity may mitigate ALAC's costs (and accordingly, the Group's costs), some costs will fall outside the scope of the indemnity and/or may exceed the maximum amount PLHL can claim under the indemnity and/or become irrecoverable should Deutsche Bank become subject to insolvency or any other analogous events, meaning that ALAC (and accordingly, the Group) will ultimately retain liability for them. In addition, ALAC may also be the subject of private censure, public censure, adverse publicity and/or resulting reputational damage, which may in turn damage the Group, the effect of which will not be mitigated by any indemnity.

In May 2016, the FCA launched a consultation on proposals to cap early exit pension charges, both for existing contracts that contain an early exit charge (where it is proposed the cap would be 1 per cent. of policy value) and also new contracts (where no exit charge would be permitted). On 15 November 2016, the FCA announced that, from 31 March 2017, where a customer is over 55 years of age and therefore eligible to

realise benefits from its pension pot, early exit charges will be capped at 1 per cent. of the value of existing contract-based personal pensions. For customers over 55 years of age, early exit charges that are currently set at less than 1 per cent. have not been increased. In addition, a cap on occupational schemes was introduced by the Department of Work and Pensions in October 2017. The Group introduced these changes in 2017 for all pension customers.

In June 2017, the FCA issued a request for information to assist them with planning the scope of their forthcoming Thematic Review of the Fair Treatment of with-profits customers. This information was supplied in August 2017. This work is ongoing. Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

The thematic review on annuity sales practices may affect the Group's business

The Phoenix Life Companies and SLAL sell annuities. Currently, across the sector, a large number of customers who have pension policies with the Group buy an annuity from the firm that holds their pension policies. In other words, customers with pension policies often choose to use their savings to buy an annuity issued by the Group.

The FCA has conducted a number of reviews and studies in respect of the issue of annuity sales. On 11 December 2014, the FCA published the findings of its thematic review into annuity sales practices. In relation to the annuity sales practices report, the FCA concluded that firms need to improve the way in which they communicate with their customers, particularly during the period when customers are coming up to retirement and making their choices as to their retirement income provision. In particular, the FCA found that:

- consumers did not shop around and/or switch providers when they chose to invest their pension pot in an annuity;
- firms' sales practices curtailed shopping around and product switching;
- the code of conduct on retirement choices, which is produced by the Association of British Insurers, was not being applied consistently (or in some cases, at all); and
- some consumers were buying the wrong type of annuity (e.g., not buying an enhanced annuity when they were eligible for one).

As a result of the above, the FCA concluded that some consumers within the sector might be suffering detriment because they were not receiving potentially higher income.

The FCA asked certain relevant firms to carry out further work and gather more evidence to allow the FCA to reach conclusions on the basis of statistically significant information (rather than anecdotal or small sampling), focusing on whether customers have shopped around and purchased a standard, rather than an enhanced, annuity.

On 14 October 2016, the FCA published a further report on its thematic review of non-advised annuity sales practices (TR16/7). The review found no evidence of industry-wide or systemic failure to provide customers with sufficient information about enhanced annuities through non-advised sales resulting in actual loss. However, the FCA:

- (a) identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA has asked those firms to review their practices since 2008, appoint skilled persons to oversee the review, and provide redress where necessary; and
- (b) identified other areas of possible concern, including in relation to the recording and maintenance of records of calls.

The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised, to ensure their communications and sales process provide customers with the information they need when they need it. The FCA has also encouraged any customers who feel they were provided with insufficient information about enhanced annuities at the time they chose their annuity to contact their annuity provider. The Group has reviewed the detail of the FCA feedback and continues to make improvements to customer service in line with the Group's strategies, in particular around transparency of information.

On 26 May 2017, the FCA published a policy statement (PS17/12) containing final rules requiring firms to inform consumers, by providing an information prompt, how much they could gain from "shopping around" and switching provider, before they buy an annuity. Firms must achieve compliance with these rules by 1 March 2018.

Following the thematic review, on 23 May 2017, the FCA confirmed to ALAC that it would be required to undertake a "past business review" covering all annuities sales over the period from 1 July 2008 to 31 October 2016. ALAC has appointed Grant Thornton and PwC to assist with this exercise, which is now underway. The FCA commissioned a skilled person, Watson Towers Willis, to develop a "Redress Calculator", which enables affected firms to adopt a consistent approach to calculating redress. Affected firms are required to fund the development of this.

The review may result in a further change in law, regulation and/or regulatory emphasis, changes in the Group's practices and/or prompt future regulatory interventions. In addition, the FCA may require affected firms to carry out further remediation in respect of detriment suffered by customers as a result of historic practices. The FCA may also decide to impose further financial penalties or compulsory customer remediation (depending on circumstances and its findings). It is not currently possible to assess what further actions the FCA may require affected firms to take or the effect such actions, if required, may have on the business of affected firms.

Deutsche Bank has provided PLHL with an indemnity, with a duration of eight years, in respect of such exposures to the extent they arise and apply to ALAC. The maximum amount that can be claimed under the indemnity (when aggregated with claims under the indemnity in respect of the thematic review on the fair treatment of long-standing customers, as discussed further above) is £175 million and it applies to all regulatory fines and 80 to 90 per cent. of the costs of customer remediation. While this indemnity may mitigate ALAC's costs (and accordingly, the Group's costs), some costs will fall outside the scope of the indemnity and/or may exceed the maximum amount PLHL can claim under the indemnity and/or become irrecoverable should Deutsche Bank become subject to insolvency or any other analogous events, meaning that ALAC (and accordingly, the Group) will ultimately retain liability for them. In addition, ALAC may also be the subject of private censure, public censure, adverse publicity and/or resulting reputational damage, which may in turn impact the Group, the effect of which will not be mitigated by any indemnity.

SLAL was also a participant in that review. At the request of the FCA, SLAL is conducting a review of non-advised annuity sales (with a purchase price above a £5,000 threshold) to customers eligible to receive an enhanced annuity from 1 July 2008 until 31 May 2016. The purpose of this review is to identify whether these customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and, where appropriate, provide redress to customers who have suffered loss as a result of not having received sufficient information. SLAL has been working with the FCA (and has appointed Grant Thornton and Deloitte) regarding the process for conducting this past business review.

Standard Life Aberdeen reported an increase in the provision for annuity sales practices and related matters of £100 million and a use of such provision of £27 million during the year ended 31 December 2017, resulting in a total provision of £248 million (2016: £175 million) in its 2017 annual accounts as an estimate of the redress payable to SLAL annuity customers, as well as the costs of conducting the review and other related costs and

expenses. The provision and timeline are based on assumptions and it will not be until the review is underway and further progressed that these will be confirmed and validated. There is a risk that the underlying assumptions are incorrect, which may result in an overall cost that is higher or lower than the provision. The Standard Life Aberdeen group has not provided for any possible FCA-levied financial penalty relating to the review.

SLAL has in place liability insurance and is seeking up to £100 million (after accounting for any excess) of the financial impact of the provision to be mitigated by this insurance. SLAL is currently in discussions with its insurers and, as a result, no insurance recovery has been recognised as an asset in the 2017 annual accounts. Following Completion, Standard Life Aberdeen will have the economic benefit of this insurance and certain of SLAL's losses may be mitigated through the indemnity described below.

Standard Life Aberdeen will upon Completion provide PGH with an indemnity in respect of certain liabilities arising out of the FCA-mandated, and Standard Life Aberdeen's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices. The aggregate liability of Standard Life Aberdeen for the matters covered by the SLAL Deed of Indemnity is capped at £155 million.

While these indemnities may mitigate the costs of SLAL (and, accordingly, the Enlarged Group's costs), some costs will fall outside the scope of the indemnity and/or may exceed the maximum amount that PGH can claim under the indemnities and/or become irrecoverable should Standard Life Aberdeen become subject to insolvency or any other analogous events, meaning that SLAL (and, accordingly, the Enlarged Group) will ultimately retain liability for them.

Any or all of these may affect the business and so could have a material adverse effect on the Group's business, results, financial condition and prospects.

Internal Operations and Management

Changes in accounting standards and assumptions may lead to increases in the level of provisioning or additional provisions being made in respect of a range of actual, contingent and/or potential liabilities including, but not limited to, tax, and changes in the determination of fair value could have a material adverse effect on the estimated fair value amounts of financial instruments

A provision is recognised when the Group has present legal or constructive obligations as a result of a past event and it is probable that an outflow of resources will be required to settle these obligations. Where the Group has present legal or constructive obligations, but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability. Provisions held by the Group, including those relating to tax, may be subject to estimates and may prove inadequate or inaccurate resulting in a material liability. Liabilities may also arise where no provision has been made. In particular, there is a time lag between acquisitions, disposals and other corporate transactions undertaken by the Group and the review of its tax treatment by HM Revenue & Customs ("HMRC"). While significant transactions are discussed with HMRC on an ongoing basis, in some cases formal confirmation of HMRC's position cannot be obtained until the relevant tax returns are submitted, which can lead to uncertainty. If a liability, including tax, were to arise in respect of which there is inadequate or no provision, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

In addition, as at 31 December 2017, the Group has derivative assets of £2,760 million and derivative liabilities of £1,242 million. Determination of fair value is made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cashflows and the credit standing of the issuer or counterparty. The use of different

methodologies and assumptions could have a material adverse effect on the estimated fair value amounts of financial instruments, which could affect the Group's business, results, financial condition and prospects.

The Holding Companies are dependent upon distributions from their subsidiaries to cover operating expenses, debt interest and repayments, pension scheme contributions and dividend payments. In times of severe market turbulence, the Group may not in the longer term have sufficient capital or liquid assets to make sufficient distributions to the Holding Companies, or to meet its payment obligations, or they may suffer a loss in value

The Group's insurance operations are conducted through subsidiaries. The Holding Companies ultimately rely, and will rely following Completion, on distributions and other payments from their subsidiaries, including in particular the Phoenix Life Companies and, following Completion, SLAL, to meet the funding requirements of Group companies, as the Holding Companies do not generate a cash surplus from their operations and other activities. The Holding Companies' principal sources of funds are dividends from subsidiaries, repayment of inter-company loans that have been made by the Holding Companies to subsidiaries and any amounts that may be raised through the issuance of equity or debt instruments or bank financing. As a result, deterioration in the liquidity and solvency position of the Phoenix Life Companies and Standard Life Assurance or other members of the Group could, in addition to its impact on the liquidity or solvency position of the individual Phoenix Life Companies and Standard Life Assurance, have in the longer term an adverse impact on the Group's funding or liquidity, which could have a material adverse effect on the Group's financial condition and prospects.

PGH has ongoing principal repayment and interest payment obligations in respect of the:

- (i) U.S.\$500,000,000 5.375 per cent. Tier 2 Notes due 2027 (the "**2027 Notes**");
- (ii) £450,000,000 4.125 per cent. Tier 3 Notes due 2022 (the "**2022 Notes**");
- (iii) £300,000,000 5.75 per cent. Bonds due 2021 (the "**Senior Bonds**"); and
- (iv) £428,113,000 6.625 per cent. Subordinated Bonds due 2025 (the "**Subordinated Bonds**"),

and for any amounts drawn under the Revolving Credit Agreement (which was undrawn as at the date of the Prospectus), the Backstop Revolving Credit Agreement and the Acquisition Facility Agreement, each of which is more fully described in "*Information on the Group - Material Contracts*", which obligations are expected to be funded by existing cash resources, the release of capital, profits and liquidity from the Group's operating units or through refinancing. The Holding Companies also have ongoing commitments to make contributions to the Group's pension schemes in accordance with the agreed contribution schedules and to meet their general operating expenses. The availability and amounts of cashflows from subsidiaries, in particular the Phoenix Life Companies and the Acquisition Life Companies, may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital in the Group.

Although the Holding Companies maintain cash buffers to reduce the reliance on emerging cashflows in any particular year, in the event that cashflows from the Group's subsidiaries are limited as a consequence of periods of severe market turbulence, this may in the longer term impair the Group's ability to service these obligations, which would have a material adverse effect on the Group's business, results, financial condition and prospects and the Issuer's ability to make payment on the Notes.

Changes in actuarial assumptions driven by experience and estimates may lead to changes in the level of reserving and regulatory capital required to be maintained

The Group has liabilities under bulk purchase agreements, annuities and other policies that are sensitive to future mortality and longevity rates. In particular, bulk purchase agreements and annuities are subject to the risk that annuity holders or pension scheme members (as applicable) live longer, or longevity rates increase,

compared to what was projected at the time their policies were issued, with the result that the issuing Phoenix Life Company or the Acquisition Life Companies must continue paying out to the annuitants or pension scheme members (as applicable) for longer than anticipated and, therefore, longer than was reflected in the price of the annuity or bulk purchase agreement (as applicable). There may also be increases in the cost of meeting guarantees on policies with a right to convert their policy value into an annuity at a fixed rate and the contributions required to be paid under the Group's defined benefit pension schemes may also increase. Conversely, increased mortality, or higher mortality rates, may increase the number of death claims on term-assurance and protection products.

The Phoenix Life Companies and the Acquisition Life Companies monitor their actual liability experience against the actuarial assumptions they use and apply the outcome of such monitoring to refine their long-term assumptions. Based on these assumptions, the Phoenix Life Companies and the Acquisition Life Companies make decisions aimed at ensuring an appropriate build-up of assets and liabilities relative to one another. These decisions include the allocation of investments among fixed-income, equity, property and other asset classes, the setting of any applicable variable policyholder bonus rates (some of which are guaranteed) and the setting of surrender terms. However, because of the underlying risks inherent in actuarial assumptions, it is not possible to determine precisely the amounts that will ultimately be paid to meet policyholder liabilities. Actual liabilities may vary from estimates, particularly when those liabilities do not occur until well into the future. The Phoenix Life Companies and the Acquisition Life Companies evaluate their liabilities allowing for changes in the assumptions used to establish their liabilities, as well as for the actual claims experience. It is also possible that, following the Acquisition, the longevity assumptions used by SLAL will be changed to align with those used by the Phoenix Life Companies. Any changes in assumptions (whether linked to the Acquisition or not) may lead to changes in the level of capital that is required to be maintained. In the event that the Group's reserving and/or regulatory capital requirements are significantly increased, the amount of cash or other assets available for other business purposes or to meet the Group's financing commitments, may decline.

To the extent that actual mortality, longevity and morbidity rates or other insurance risk experience are less favourable than the underlying assumptions about such rates or experience and it is necessary to increase reserves for policyholder liabilities as a consequence, the amount of additional capital required (and therefore the amount of capital that can be released from the Phoenix Life Companies and the Acquisition Life Companies in order to service and pay down debt or to finance distributions to their shareholders) and the ability of the Group to manage the Phoenix Life Companies and the Acquisition Life Companies in an efficient manner may all be materially adversely affected. In particular, there is considerable uncertainty over the rate at which mortality rates will continue to improve in the future. Over time, the Group could incur significant losses if mortality rates improve faster than has been assumed.

In addition, the Group makes assumptions about the rates at which policyholders will surrender or otherwise terminate their policies prior to their maturity date. There is a risk that, due to the Acquisition, Standard Life Assurance will see an increase in the number of surrenders or terminations resulting in a reduction in future profits. It is also possible that more general macro-economic conditions and interest rate changes may affect surrender and persistency rates. For products with guarantees at maturity, the Group is exposed to the risk that fewer policyholders will terminate their policies prior to their maturity date than assumed, since this will increase the volume of guarantees that are required to be met at maturity. Conversely, for policies with no guarantees, the anticipated future profits obtained from those policies may be curtailed if more policyholders terminate their policies prior to their maturity date than assumed. Surrender rates may also be affected by changes in law and/or regulation.

If the assumptions underlying calculations of reserves are shown to be incorrect (e.g., if policyholders do not die at the rate assumed in actuarial calculations or if the volume of guarantees that are required to be met at

maturity is greater than assumed), the Group may have to increase the amount of its reserves or the amount of risk reinsured. The Group also has obligations towards pension schemes that are sensitive to longevity experience rates. If members live longer than expected, additional capital may need to be held to cover increased pension scheme obligations. Any of these factors could have a material adverse impact on the Group's business, results, financial condition and prospects.

The Group needs to reduce the expenses of managing long-term business in line with the run-off profile of its funds. The inability to adjust these costs could have an adverse effect on the Group

The Phoenix Life Companies and a significant majority of the business of SLAL, by their nature, are in long-term run-off meaning that their policy portfolios should become smaller over time. In order to protect with-profit policyholder benefits and shareholder returns, it will be necessary to reduce the costs of managing the Group's long-term business at least in line with the run-off profile, which the Group partly does through the use of outsourcing arrangements. The Group is exposed to the risk that it may be unable to reduce costs proportionately or to make changes to achieve an appropriate new balance of fixed and variable costs. This exposure could arise, for example, from deficient management, contractual restrictions, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. The current expense assumptions for policy charges are based on anticipated governance costs and the run-off profile of the Group's funds. An inability to adjust these costs could therefore have a material adverse effect on the Group's business, results, prospects and financial condition.

The Group's risk management policies and procedures may not be effective and may leave the Group exposed to unidentified or unexpected risks

The Group's policies, procedures and practices used to identify, monitor and control a variety of risks may fail to be effective. In addition, these practices will have to be expanded to cover Standard Life Assurance. As a result, the Group faces the risk of losses, including losses resulting from human error, the payment of incorrect amounts to policyholders due to incorrect administration, market movements and fraud. The Group's risk management methods rely on a combination of technical and human controls and supervision that can be subject to error and failure. Some of the Group's methods of managing risk are based on internally developed controls, models and observed historical market behaviour, and also involve reliance on industry standard practices. These methods may not adequately prevent future losses, particularly if such losses relate to extreme or prolonged market movements, which may be significantly greater than the historical measures indicate. These methods also may not adequately prevent losses due to technical errors if the Group's testing and quality control practices are not effective in preventing technical software or hardware failures.

Ineffective risk management policies and procedures may have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group is vulnerable to adverse market perception arising as a result of reputational damage, especially as it operates in a highly regulated industry

The Group must display a high level of integrity and have the trust and the confidence of its customers and its advisers. Any mismanagement, fraud or failure to satisfy fiduciary responsibilities, or any negative publicity resulting from the Group's activities, the activities of a third party to whom the Group has licensed its brands or has outsourced any services, or any accusation by a third party in relation to the Group's activities (in each case, whether well founded or not) that is associated with the Group or the industry generally (such as those that arose in respect of mortgage endowments, split-capital investment trusts or payment protection insurance), could have a material adverse effect on the Group's results, financial condition and prospects, including:

- reducing public confidence in the Group;

- decreasing its ability to retain current policyholders;
- adversely affecting the willingness of insurance companies to sell closed-book companies or portfolios to the Group;
- increasing the likelihood that the FCA and PRA or non-United Kingdom regulators will not approve acquisitions or insurance business transfers necessary to effect intra-Group consolidations of closed-book companies or portfolios or will subject the Group to closer scrutiny than would otherwise be the case;
- increasing costs of borrowing, including in debt capital markets transactions;
- adversely affecting the Group's ability to obtain reinsurance or to obtain reasonable pricing on reinsurance; and
- decreasing customers' willingness to invest in or acquire particular products.

There have been a number of highly publicised cases involving fraud or other misconduct by employees in the financial services industry in recent years. It is not always possible to deter or prevent employee misconduct and the precautions the Group takes to prevent and detect this activity may not be effective in all cases. The Group therefore run the risk that employee misconduct could occur, with possible adverse effects on the Group as set out above.

Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

Increases in liabilities relating to product guarantees may adversely affect the Group

In the 1970s and 1980s, when interest rates were higher than they currently are or have been in recent years, United Kingdom life insurance companies (including the Phoenix Life Companies and certain of the Acquisition Life Companies) sold pension contracts that contained certain guarantees or options, including guaranteed annuity options that allowed the policyholder to elect to take the lump sum payable upon the maturity of the pension and apply the funds to purchase an annuity at a minimum guaranteed rate. During the last decade, long-term interest rates have declined. As a result, the Group may have to meet the cost of the mismatch between the performance of the underlying assets and the guaranteed annuity which they are obliged to provide to relevant policyholders.

Similarly, some of the products sold in Germany by SLAL contain terms which guarantee certain of the relevant customer benefits. For example, the German with-profits products contain guaranteed annuity terms and roll-up terms. This is particularly relevant where the Group's liabilities under the products are unhedged or cannot be provided for using pre-existing assets like the inherited with-profit estate.

The Phoenix Life Companies and certain of the Acquisition Life Companies have existing liabilities relating to guarantees and options contained in policies, which are increased by adverse movements in interest rates, increasing life expectancy and the proportion of customers exercising their options. The Group has purchased derivatives that provide some hedge protection against movements in interest rates but not all such interest rate risk is hedged and it may not be possible, feasible or desirable to hedge such risks in the future. The Group is also exposed to counterparty risk in respect of such financial instruments. The most significant factors affecting the cost of these liabilities relating to guarantees and options relative to the provisions made are the number of customers electing to exercise their option to take the more favourable annuity rates, the relative values of any hedge derivatives that may be maintained from time to time, interest rates and the longevity rates of annuity holders.

If the existing mismatch between the performance of the underlying assets and the guaranteed annuity benefits increases, the Group's business, results, financial condition and prospects could be materially adversely affected.

The Group is exposed to risks arising from new business

The Group is primarily focused on the efficient management of in force policies and has historically written a limited number of new policies (broadly as increments to existing policies and annuities for current policyholders when their policies mature). Following the completion of the Group's acquisition of the SunLife Embassy Business from AXA UK plc ("**AXA UK**" and the "**AXA Transaction**", respectively) pursuant to the sale and purchase agreement dated 27 May 2016 between PGH, PLHL and AXA UK (the "**AXA SPA**"), the Group additionally now writes a limited set of directly marketed protection policies, including guaranteed over 50s policies (life insurance policies available to people over 50 years of age, which pay out upon the death of the life assured). Whilst the value of this new business is relatively small in proportion to the value of the rest of the Group, there are risks associated with the distribution of life insurance products and the sale of these types of products.

In addition to products associated with the AXA Transaction, as a result of the Acquisition, the Group will contain companies (SLIDAC and SLAL) that will manufacture workplace pensions, self-invested personal pensions ("**SIPP**"s), drawdown products, onshore bonds and offshore bonds and will also continue to conduct business in Ireland and Germany. The risks associated with new business include underwriting risk, uncompetitive pricing operational risk from processing new business, conduct risk, the risk of increased FCA (and other regulatory) supervision in respect of marketing activities and regulatory capital requirements. If the Group is unable to successfully meet the challenges of these new and/or increased risks, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group may encounter new risks as it seeks to participate in the bulk annuity market

The Group is now marketing bulk annuity policies to the trustees of defined benefit pension schemes (and has recently completed its first bulk purchase agreement with a third party). There is a risk that bulk annuity business could generate losses, in particular if longevity expectations are different to those assumed in the pricing of the contracts or if the Group fails to generate sufficient investment returns on the investments supporting the Group's liabilities under such arrangements. To the extent the Group reinsures longevity risk arising from bulk annuity policies, this will increase the Group's exposure to reinsurer credit risk with respect to its ability to recover amounts due from reinsurers under such arrangements.

The Group's success will depend upon its ability to attract, motivate and retain key personnel

The calibre and performance of the Group's senior management and other key employees, taken together, are critical to the success of the Group. The continued success of the Group will depend on its ability to attract, motivate and retain highly skilled management and other personnel, including lawyers, actuaries, portfolio and liability managers, analysts and executive officers. Competition for qualified, motivated and skilled personnel in the life insurance industry remains significant. Moreover, in order to retain certain key personnel, the Group may be required to increase compensation to such individuals, resulting in additional expenses.

If the Group is unable to attract, motivate and retain key personnel, its business, results, financial condition and prospects could be materially adversely affected.

The Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes for employees if the value of or cashflows from pension fund assets is not sufficient to cover future obligations under the schemes

The Group operates several different pension schemes. The three main pension schemes are the pension scheme covering the past and present employees of the Group prior to the acquisition of Pearl Group Holdings (No. 1) Limited (formerly named Resolution plc) and its subsidiaries and, where the context requires, the on-sold assets of Pearl Group Holdings (No. 1) Limited until their disposal (the “**Resolution Group**”) (the “**Pearl Scheme**”); the pension scheme covering the past and present employees of the subsidiaries of Impala Holdings Limited (“**Impala**”) and the employees of the former SunLife Embassy Business (the “**PGL Pension Scheme**”); and the pension scheme relating to the former employees of Abbey Life (the “**Abbey Life Pension Scheme**”). Each of those schemes has both defined benefit and defined contribution sections. The defined benefit sections of each scheme are closed to new business and both the Pearl Scheme and the PGL Pension Scheme contain no active members. As at 31 March 2017, the Abbey Life Pension Scheme had 15 active members. For further information, see “*Information on the Group – Pensions*”.

The pension schemes’ trustees are required to undertake triennial valuations of the schemes and agree with the Group’s statutory funding plans, although the trustees are free to call for a further valuation on an earlier date if they see fit. Any future decline in the value of scheme assets, changes in mortality and/or morbidity rates, future changes in interest rates, changes in inflation rates or changes in the current investment strategies of the pension schemes could increase or contribute to the pension schemes’ funding deficits and require the Group to make additional funding contributions in excess of those currently expected. As is the case for all formerly contracted-out defined benefit pension schemes in the UK, the funding level could also be impacted by the outcome of the current High Court proceedings examining inequality in the provision of guaranteed minimum benefits.

The most recent triennial valuation for the PGL Pension Scheme as at 30 June 2015 was completed in June 2016. This showed a surplus of £164 million on the agreed technical provisions basis as at 30 June 2015. As at 31 December 2017, no further contributions are scheduled to be paid.

The most recent triennial valuation for the Pearl Scheme as at 30 June 2015 was completed in September 2016. This showed a deficit of £300 million on the agreed technical provisions basis as at 30 June 2015. The trustees of the Pearl Scheme and Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited, “**PGH2**”) entered into a revised pensions funding agreement on 27 November 2012 (the “**2012 Pensions Agreement**”) under which the trustees agreed the technical provisions basis to be used for each triennial valuation and agreed the contributions payable to the scheme. Under this agreement PGH2 will pay contributions of £40 million per annum until 2021. The key terms of the 2012 Pensions Agreement are summarised in “*Information on the Group – Material Contracts*”.

The most recent triennial valuation for the Abbey Life Pension Scheme as at 31 March 2015 showed a deficit of £107 million on a scheme funding (technical provisions) basis. The trustees of the Abbey Life Pension Scheme (the “**Trustees**”) and Pearl Life Holdings Limited (“**PeLHL**”) entered into an agreement on 29 June 2017 under which PeLHL will pay contributions of £400,000 per month between July 2017 and June 2026 (the “**2017 Contributions Agreement**”). PeLHL will make an additional payment of £4 million per annum into a charged escrow account (the “**2016 Charged Account**”). A separate charged account was set up as part of a funding agreement entered into in June 2013 (the “**2013 Charged Account**”). The 2013 Charged Account and the 2016 Charged Account contained a combined £44.8 million as at 31 December 2017. If the scheme shows a deficit on a defined technical provisions basis as at 31 March 2021, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in the 2013 Charged Account. If the scheme shows a deficit on a defined technical provisions basis as at 31 March 2027, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in the 2016 Charged Account.

The Pensions Regulator has statutory powers to demand contributions from companies connected or associated with an employer in a defined benefit pension scheme (such as other entities within a group), including powers to issue Financial Support Directions or Contribution Notices. The powers may be exercised against any entity which is “connected” or “associated” with the company which participates in the scheme. These are referred to as “moral hazard” powers and enable the Pensions Regulator to take action if reasonable to do so where certain corporate activity has a materially detrimental effect on the security of members’ benefits in a pension scheme. Broadly a Financial Support Direction requires the target to put in place arrangements for the financial support of the scheme. No element of fault is required but there is a reasonableness test and certain other statutory tests have to be satisfied. A Contribution Notice requires the target to pay a sum of money into the scheme where there has been an act or omission, one of the main purposes of which is to avoid any “employer debt” becoming due or to compromise or otherwise reduce the amount of that debt or which otherwise has a materially detrimental impact on the funding of the scheme. A change in the employer covenant supporting a scheme could therefore fall within the scope of the Pensions Regulator’s powers.

The Pensions Regulator also has statutory powers to intervene in pension scheme funding if the employers and trustees fail to reach agreement or if it is not satisfied that the statutory funding plans will eliminate the funding deficit in a timely manner. In practice, it is very rare for the Pensions Regulator to exercise its statutory powers to intervene in scheme funding, but instead may seek to influence behaviour if the parties are struggling to reach agreement on the terms of the triennial actuarial valuation.

Any of the above could have a material adverse effect on the Group’s business, results, financial condition and prospects.

Because PGH is incorporated under the laws of the Cayman Islands, Noteholders may need to enforce any judgment obtained against PGH in the courts of the Cayman Islands

PGH is incorporated under the laws of the Cayman Islands and its corporate affairs are governed by PGH’s memorandum of association and articles, the Companies Law (as amended) of the Cayman Islands and the common law of the Cayman Islands. To the extent that any Noteholder obtains a judgment against PGH from a court in England and Wales it should be noted that whilst there is no statutory recognition in the Cayman Islands of judgments obtained in England and Wales, the courts of the Cayman Islands will in certain circumstances recognise and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits at common law by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands.

Third Parties and other counterparties

The Group relies predominantly on third party asset management firms outside the Group to manage its assets. Periods of underperformance of the asset management firms appointed by the Group could lead to disproportionate redemptions in the funds of the Group, and the performance of such firms (and therefore the performance of its investments) may be adversely affected by mismanagement of client assets or liabilities and the loss of key investment managers

The Group relies predominantly on outside third party asset management firms to manage its assets. Members of the Group enter into investment management agreements when they appoint third party asset management firms to manage their assets. Such investment management agreements typically contain provisions relating to performance conditions, the breach of which can permit the early withdrawal of assets from third party asset managers. The Group only enters into third party asset management relationships with firms which the Group believes have the know-how, expertise and business models appropriate for the provision of asset management services to the Group. The Group aims to maintain effective systems and controls for third party

asset management firms in compliance with the Group's ongoing obligations. However, there can be no assurance that such provisions would be successful in seeking to avoid or reduce the potential effects of underperformance by third party asset management firms.

If the investment performance of the third party asset management firms appointed by the Group represents underperformance relative to other asset management firms, the Group's policyholders may seek to redeem their policies. In addition, the Group derives a significant portion of its income from its share of the appreciation of investments held in shareholder, non-profit and with-profit funds. Therefore, where the Group experiences lower returns on those assets, this reduces the level of income which the Group would recognise. Any of these factors could have a material adverse effect on the Group's business, results, financial condition and prospects.

The performance of the third party asset management firms appointed by the Group are also subject to risks associated with the process of managing client assets and providing asset and liability management services, such as the risk of failure to manage the investment process or execute trading activities properly. Such failure could lead to poor investment decisions, incorrect risk assessments, poor asset allocation, inappropriate investments being bought or sold and incorrectly monitoring exposures. A failure by asset management firms to effectively manage the Group's assets, interest rate and liquidity risks could have a material adverse effect on the Group's business, results, financial condition and prospects.

If the Group experiences difficulties arising from outsourcing relationships, its ability to conduct business may be compromised

Certain Group companies outsource almost all of their key customer service, policy administration, accounts collection, human resource payroll and administration functions under formal outsourcing arrangements. The Group only enters into outsourcing relationships with firms which the Group believes have the know-how, expertise and business models that put such services at the core of their offerings. The Group, aims to maintain effective systems and controls for outsource providers in compliance with the Group's ongoing obligations. However, there can be no assurance that such systems and controls will be completely successful in seeking to avoid, or reduce the potential effects of, underperformance. In particular, while the outsourcing relationships are carefully monitored, underperformance may also result in breaches of applicable law and regulation, which could result in regulatory intervention. There is also a risk that the providers will not be able to keep up with the pace of legal and/or regulatory change, in which case the Group's operations may become non-compliant.

If the Group does not effectively develop, implement and monitor its outsourcing strategy, or outsourcing relationships (including any related contingency plans) do not perform as anticipated or the Group experiences problems with a transition of outsourcing arrangements, the Group may experience poor investment returns, operational difficulties, increased costs, reputational damage and a loss of business that may have a material adverse effect on the Group's business, results, financial condition and prospects. In addition, the expected or unexpected decline or insolvency of one or more of the Group's third party service providers leading to an inability to provide relevant services could have a material adverse effect on the Group's ability to sustain its ongoing operations, which could have a material adverse effect on the Group's business, and require the use of effective contingency options to manage the impact on results, financial condition and prospects. In addition, the expected or unexpected decline or insolvency of one or more of the Group's third party service providers leading to a reduced ability, or an inability to provide relevant services could have a material adverse effect on the Group's ability to sustain its ongoing operations, which could have a material adverse effect on the Group's business, and require the use of effective contingency options to manage the impact on the Group's results, financial condition and prospects.

Factors such as previous consolidation of the outsourcing industry has led to an increased exposure for the Group to a smaller number of third party policy administration suppliers, with few alternative supply options. Further market concentration may create challenges regarding PGH's ongoing relationships and in the development and viability of effective contingency plans under stressed conditions.

If the Group is unable to maintain the availability of its systems and safeguard the security of its data, including customer and employee data, due to accidental loss, cyber-crime, the occurrence of disasters or other unanticipated events affecting the Group or its service providers, its ability to conduct business may be compromised, which may have an adverse effect on the Group

The Group uses computer systems to store, retrieve, evaluate and utilise policyholder, employee and company data and information. The Group's computer, information technology and telecommunications systems, in turn, interface with and rely upon third party systems, including those of third party outsourced service providers. The Group's business is highly dependent on its ability, and the ability of certain third parties, to access these systems to perform necessary business functions, including, without limitation, processing premium payments, making changes to existing policies, filing and paying claims, administering annuity products, providing customer support and managing the Group's investment portfolios. Systems failures or outages could compromise the Group's ability to perform these functions in a timely manner, which could harm its ability to conduct business and hurt its relationships with its business partners and customers. In the event of a disaster, such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, the Group's systems may be inaccessible to its employees, customers or business partners for an extended period of time. The Group's systems could also be subject to physical and electronic break-ins, cyber-crime and subject to similar disruptions from unauthorised tampering. In addition, the Group are subject to the accidental loss of data by its employees or outsourced service providers, which could expose the Group to potential liabilities and could negatively impact its relationships with its business partners and customers. The factors described above may impede or interrupt the Group's business operations or lead to unauthorised disclosure or loss of data or data corruption, including customer data, which could lead to potential liabilities and damage the Group's reputation. Furthermore, because of the long-term nature of much of the Group's business, accurate records have to be kept for long periods of time.

Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

The Group may be adversely affected by third party reinsurers' unwillingness or inability to meet its obligations under reinsurance contracts, or potential variations and reductions in the nature and scope of cover through schemes of arrangement or portfolio transfers. In addition, the unavailability, adverse pricing and/or inadequacy of reinsurance arrangements may adversely affect the Group

The insurers within the Group seek, through reinsurance with third parties, to transfer risk to reinsurers (and, in particular, in relation to the Phoenix Life Companies and the Acquisition Life Companies, mortality, longevity and morbidity risk) that can cause unfavourable outcomes to its business. As a result, the Group has substantial exposure to reinsurers through reinsurance (or retrocession) arrangements in relation to the Phoenix Life Companies and the Acquisition Life Companies. Under these arrangements, reinsurers assume all or a portion of the costs, losses and expenses associated with the reinsured (or retroceded) policies' claims and reported and unreported losses in exchange for a premium, or as part of a sale arrangement. However, the Phoenix Life Companies and the Acquisition Life Companies generally remain liable as the direct insurer (or reinsurer) on all risks reinsured (or retroceded). Consequently, reinsurance arrangements do not eliminate the Group companies' obligation to pay claims. The Group companies are subject to reinsurer credit risk with respect to its ability to recover amounts due from reinsurers. Even where the reinsurer has an obligation to put up collateral in support of its operations, there can be no certainty that such collateral will satisfy the full amount of the Group's liabilities.

While the Group regularly evaluate the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer defaults and insolvencies, reinsurers may become financially unsound or choose to dispute their contractual obligations when they become due. Reinsurers may also seek to “cut off” the obligations they owe under the reinsurance arrangements by schemes of arrangement. A scheme of arrangement allows an insurer or reinsurer to achieve finality for its exposure to certain policies by giving creditors a fair valuation of ultimate liabilities (i.e., settling all known claims balances and incurred but not reported balances). A scheme of arrangement may limit the benefit of reinsurance protections and ultimately the amount available to pay out subsequent claims.

In addition, market conditions beyond the Group’s control determine the availability and cost of the reinsurance that the Group is able to purchase in the event that the existing reinsurance arrangements prove to be insufficient. Historically, reinsurance pricing has changed significantly from time to time. No assurances can be given that reinsurance will remain continuously available to the Group to the same extent and on the same terms as are currently available or which were available at the time that the current arrangements were established. If the Group were unable to maintain its current level of reinsurance or purchase new reinsurance protection in amounts that the Group considers sufficient and at prices that it considers acceptable, the Group would have to either accept an increase in its net liability exposure or develop other alternatives to reinsurance. The availability of reinsurance to United Kingdom insurers may also depend on the precise terms of the United Kingdom’s Brexit arrangements.

Third party reinsurers’ unwillingness or inability to meet their obligations under reinsurance contracts, or potential variations and reductions in the nature and scope of cover through schemes of arrangement and the unavailability, adverse pricing or inadequacy of reinsurance arrangements could have a material adverse effect on the Group’s business, results, financial condition and prospects.

The withdrawal of assets from investment management agreements with Standard Life Aberdeen companies may expose the Group to purchase price adjustments and other costs or claims

On 1 July 2014, the Group announced the completion of the divestment of Ignis Asset Management (“**Ignis**”).

The divestment agreement contains certain warranties and indemnities in favour of Standard Life Investments (Holdings) Limited (“**Standard Life Investments**”). In addition, in the divestment agreement, PGH agreed with Standard Life Investments that it will guarantee the payment obligations of Impala under that agreement, including indemnities given by Impala to Standard Life Investments and Impala’s obligations in respect of any purchase price adjustment referred to below. The extent to which the Group will be required in the future to incur costs under any of these warranties, agreements or indemnities is not predictable and, if the Group should incur such costs, these costs may have an adverse effect on the Group’s business, results, financial condition and prospects.

As part of the divestment, Impala agreed to a purchase price adjustment mechanism which applied for a period of 10 years. The purchase price adjustment applies if assets held on behalf of certain of the Phoenix Life Companies are withdrawn from Ignis’ management, other than for specific reasons such as poor investment performance or for material breaches of the investment management agreements between the Phoenix Life Companies (and Opal Reassurance Limited) and Standard Life Investments. A purchase price adjustment can only be triggered as a result of a decision by the relevant member of the Group to withdraw assets from Ignis’ management. Such withdrawals are within the discretion of the relevant member of the Group and not PGH. The Ignis purchase price adjustment represents the value of the fees lost as the result of an asset withdrawal and is calculated by reference to a pre-determined notional fee profile, which takes into account the likely run-off of the assets withdrawn over the remainder of the 10-year term. The Ignis purchase price adjustment is reduced where new assets are acquired by the Group, and the mandate for such assets is

awarded to Ignis, whereupon any purchase price adjustments due in a year under the revised purchase price agreement shall be reduced by the value of the fees paid to Ignis in that year.

If Completion occurs, then the purchase price adjustment mechanism will be modified such that it will: (i) be extended to apply for a 10-year period from Completion; (ii) be expanded to apply to withdrawals of certain additional Group assets managed by Standard Life Aberdeen; and (iii) use a different agreed run-off profile to the Ignis purchase price adjustment. In addition, the notional fees which would have been paid in respect of withdrawn assets will be determined by reference to the highest management fee paid for such assets in the three years preceding the withdrawal (instead of a pre-determined fee profile). As with the Ignis purchase price adjustment, where the mandate for new assets acquired by the Group is awarded to a Standard Life Aberdeen subsidiary, any purchase price adjustments due in a year under the revised purchase price agreement shall be reduced by the value of the fees paid to a Standard Life Aberdeen subsidiary in that year. Where a purchase price adjustment is due, adjustments will be made to the consideration paid by PGH in respect of the Acquisition.

Triggering the existing Ignis purchase price adjustment or the new purchase price adjustment could result in the Group incurring a cost which would need to be funded from its internal cash resources from time to time. Any adjustments to the purchase price for Ignis or to the consideration due in respect of the Acquisition or any increased regulatory capital requirements in relation to the purchase price adjustment mechanisms may reduce PGH's cash resources and/or have an adverse effect on its financial condition and/or a material adverse effect on the Group's business, results, financial condition and prospects.

Legal and arbitration proceedings could cause the Group to incur significant expenses, which could have an adverse effect on the Group

From time to time, the Group is party to various legal and arbitration proceedings, in respect of which monetary damages and/or compensation are sometimes sought.

On 5 June 2015, PA (GI) Limited ("PA (GI)") was subject to a judgment in the Chancery Division of the Companies Court. The judgment directed that PA (GI) is liable to the claimants for mis-selling complaints and claims relating to a book of creditor insurance business that PA (GI) underwrote until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to these complaints. PA (GI) has paid a total of £20 million in respect of such complaints and claims, including associated costs of administering the claims, as at 31 December 2017 and has recognised an accounting provision in this regard of £40 million as at 31 December 2017. In the year ended 31 December 2017, a £21 million increase in the provision for claims was recognised. The FCA has introduced a deadline for creditor insurance claims of August 2019. The FCA has also commenced a publicity campaign, the purpose of which is to ensure persons with a right of claim are aware of their rights prior to the deadline. Until that deadline has passed, PGH is unable to confirm its maximum exposure in respect of this matter. The campaign is likely to increase the number of complaints for which PA (GI) may have to pay redress. Such an increase could result in the total additional liability of the Group in respect of these complaints and claims being in excess of the £40 million for which provision has been made in PGH's financial statements as at 31 December 2017.

In the year ended 31 December 2017, reimbursements of £39 million have been recognised by PA (GI) in respect of recoveries due or received from third parties in connection with the Group's exposure to these complaints. This represents recoveries from third parties under contractual arrangements. Recoveries of £7 million were received during the year ended 31 December 2017. At 31 December 2017, recoveries of a further £32 million were due to PA (GI) in respect of both past and estimated future complaint payments and liabilities.

The Group's management cannot predict with certainty the outcome of pending legal and arbitration proceedings or potential future legal and arbitration proceedings, and the Group may incur substantial

expense in pursuing or defending these proceedings. Potential liabilities may not be covered by insurance, the Group's insurers may dispute coverage or may be unable to meet their obligations, or the amount of the Group's insurance coverage may be inadequate. Moreover, even if claims brought against the Group are unsuccessful or without merit, the Group would have to defend itself against such claims. The defence of any such actions may be time consuming and costly, may distract the attention of management and potentially result in reputational damage. As a result, the Group may incur significant expenses and may be unable to effectively operate its business. Accounting provisions recognised by the Group in its financial statements may prove to be insufficient. Any of the above and any adverse outcomes and reputational damage arising out of such litigation could have a material adverse effect on the Group's business, results, financial condition and prospects.

Indebtedness

The Group could be materially adversely affected by its indebtedness

The total principal amount outstanding under the 2027 Notes, the 2022 Notes, the Senior Bonds, the Subordinated Bonds, the £200,000,000 7.25 per cent. undated unsecured subordinated notes originally issued by Scottish Mutual Assurance Limited and now issued by Phoenix Life Limited (the "**PLL Tier 2 Bonds**") and the Revolving Credit Agreement as at 31 December 2017 was £1,585 million (with the principal of the 2027 Notes included at the swapped rate of £385 million).

The Group's indebtedness and restrictions on the Group under the terms of its bonds, notes, Revolving Credit Agreement, Backstop Revolving Credit Agreement and Acquisition Facility Agreement could have a material adverse effect on the Group, including:

- requiring the Group to dedicate a substantial portion of its cashflow to payments on its debt;
- restricting the Group from pursuing potential acquisition opportunities or preventing the Group from being able to obtain regulatory approval for a potential acquisition opportunity, which could impair the Group's ability to execute its acquisition strategy;
- exposing the Group to changes in interest rates, which can impact the price of fixed rate debt or the interest cost of variable rate debt (if any);
- placing the Group at a competitive disadvantage compared to its competitors that have lower levels of indebtedness;
- the Group losing its investment grade rating;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business and industry; and
- limiting, among other things, the Group's ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

The Group may need to refinance the remaining outstanding principal amount of its bonds, notes and credit facilities (if applicable) either on terms which could potentially be less favourable than the existing terms or under unfavourable market conditions.

On the other hand, the Group's leverage has a positive effect on the Group's value through the beneficial impact of the tax deductibility of interest and so any significant reduction in its indebtedness and associated interest costs may have an adverse impact on the Group's value as a consequence of higher tax payments than currently projected by the Group. There can be no assurance that the Group will, in the future, continue to benefit from tax deductions for its interest costs to the same extent.

The level of the Group's indebtedness and financing structure could therefore have a material adverse effect on the Group's business, results, financial condition and prospects and the Issuer's ability to make payment on the Notes.

The finance facilities and debt instruments that the Group has entered into include covenants that may restrict the Group from taking certain business actions and/or implementing its business strategies

The agreements that govern the Group's finance facilities and debt instruments contain certain restrictions limiting its flexibility in operating its business. Such restrictions limit the Group's ability to:

- create liens;
- borrow money;
- sell or otherwise dispose of assets; and
- engage in mergers or consolidation.

These restrictions could in the longer term hinder the Group's ability to implement its business strategies. The Group is also subject to other financial and non-financial restrictions that may limit its ability to pay dividends. In addition, a breach of the terms of other finance facilities or debt instruments could cause a default under the terms of the Group's other financing arrangements, causing some or all of the debt under those financing arrangements to become due prior to its scheduled maturity date.

Taxation

Changes in taxation law may adversely impact the Group

United Kingdom and overseas taxation law includes rules governing company taxes, business taxes, personal taxes, capital taxes, value added taxes and other indirect taxes. The Group's management cannot predict the impact of future changes in United Kingdom and overseas tax law on its business. From time to time, changes in the interpretation of existing United Kingdom and overseas tax laws, amendments to existing tax rates, changes in the practice of tax authorities, or the introduction of new tax legislation in the United Kingdom or overseas may adversely impact the Group's business, results, financial condition and prospects.

There are specific rules governing the taxation of policyholders. The Group's management cannot predict accurately the impact of future changes in tax law on the taxation of life and pension policies in the hands of policyholders. Amendments to existing legislation (particularly if there is a withdrawal of any tax relief or an increase in tax rates) or the introduction of new rules may impact upon the decisions of policyholders, and could have a material adverse effect on the Group's business, results, financial condition and prospects.

The effect of future changes in tax legislation on specific products may have an adverse effect on the Group and may lead to policyholders attempting to seek redress where they allege that a product fails to meet their reasonable expectations

The design of long-term insurance and annuity products is predicated on tax legislation applicable at that time. However, future changes in tax legislation or in interpretation of the legislation may, when applied to these products, have a material adverse effect on the financial condition of the relevant Group companies in which the business was written and therefore have a material negative impact on policyholder and the Group's returns.

The design of long-term products takes into account, among other things, risks, benefits, charges, expenses, investment returns (including bonuses) and taxation. Policyholders may seek legal redress where a product fails to meet their reasonable expectations. An adverse outcome of such litigation and reputational damage

arising out of such litigation could have a material adverse effect on the Group's business, results, financial condition and prospects.

Changes to the current VAT rules may result in VAT being chargeable on certain outsourcing agreements of the Group

Group companies currently do not pay significant amounts of value added tax chargeable under or pursuant to the Value Added Tax Act 1994 or the EU Directive 2006/112/EC on the common system of value added tax and any other sales, purchase or turnover tax of a similar notice, whether imposed in the United Kingdom or elsewhere ("VAT") in respect of services they receive under their outsourced services agreements for policy administration. If the amount of VAT payable were to increase then this would increase the Group's costs to the extent that the relevant agreements did not contain adequate protection against VAT being charged or increased. VAT charged on goods and services is largely irrecoverable for financial services groups such as the Group. Services supplied under the outsourced services agreements are largely exempt from VAT under the United Kingdom's insurance intermediaries' exemption. The Court of Justice of the European Union (the "CJEU") has considered the scope of the insurance intermediaries' exemption in a number of cases, most recently in March 2016, and ruled that certain types of outsourced insurance services were subject to VAT. The United Kingdom's interpretation of the insurance intermediaries' exemption is out of step with these judgments. However, the United Kingdom government has historically been supportive of a wider exemption. It remains to be seen how the impact from Brexit, during transition and thereafter, will affect this view and the applicability of such CJEU decisions. If any such changes are effected, this may lead to the conclusion that certain services under the Group's outsourced services agreements for policy administration would be treated as subject to VAT. Although certain of the outsourced services agreements have a measure of protection against such changes, since VAT is largely irrecoverable by the Group, such treatment could have a material adverse effect on the Group's business, results, financial condition and prospects.

Risks relating to PGHC

PGHC's ability to fulfil its obligations under the Senior Notes is dependent on the Group

PGHC is a finance vehicle which is a direct wholly-owned subsidiary of PGH and will on-loan the proceeds of any Series of Senior Notes issued by it in an amount equal to the principal amount of such Senior Notes to PGH or a subsidiary of PGH. PGHC has insufficient net assets, other than amounts due to it from the Group in respect of any intra-Group loans, to meet its obligations to pay interest and other amounts payable in respect of any Senior Notes and any other indebtedness owed to third parties. PGHC would, therefore, in the absence of other funding sources, have to rely on the Group to provide sufficient funds to meet such obligations.

In addition, the other members of the Group are separate and distinct legal entities and have no obligation, other than PGH in relation to the applicable Guarantee, contingent or otherwise, to pay any amounts due pursuant to the Senior Notes or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not, apart from PGH, guarantee the payment of interest on, or principal of, the Senior Notes.

Any failure of the Group to provide such funds could have a material adverse effect on the ability of PGHC to make payments under the Senior Notes.

Risks relating to Irish Law

Centre of main interests ("COMI")

PGHC has its registered office in Ireland. Under Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the Recast EU Insolvency

Regulation), PGHC's centre of main interest (COMI) is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that PGHC did not move its registered office within the 3 months prior to a request to open insolvency proceedings.

As PGHC's COMI is presumed to be Ireland, any main insolvency proceedings in respect of PGHC would fall within the jurisdiction of the courts of Ireland. As to what might constitute "proof to the contrary" regarding the location of a company's COMI, the key decision is that in *Re Eurofood IFSC Ltd* ([2004] 4 IR 370 (Irish High Court); [2006] IESC 41 (Irish Supreme Court); [2006] Ch 508; ECJ Case C-341/04 (European Court of Justice)), given in respect of the equivalent provision in the previous EU Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that "factors which are both objective and ascertainable by third parties" would be needed to demonstrate that a company's actual situation is different from that which the location of its registered office is deemed to reflect. For instance, if a company with its registered office in Ireland does not carry on any business in Ireland, that could rebut the presumption that the company's COMI is in Ireland. However, if a company with its registered office in Ireland does carry on business in Ireland, the fact that its economic choices are controlled by a parent undertaking in another jurisdiction would not, of itself, be sufficient to rebut the presumption.

As PGHC has its registered office in Ireland, has a majority of Irish resident directors and it is registered for tax in Ireland PGHC does not believe that factors exist that would rebut the presumption that its COMI is located in Ireland, although this would ultimately be a matter for the relevant court to decide based on the circumstances existing at the time when it was asked to make that decision. If PGHC's COMI was found to be in another EU jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead. Upon an insolvency of PGHC, Noteholders would likely be required to seek to recover any amounts due under the Senior Notes through an Irish law insolvency procedure.

Preferred creditors

If PGHC becomes subject to insolvency proceedings and PGHC has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of PGHC rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes) and, in the case of an insolvency of PGHC, this may have a material adverse effect on the ability of Noteholders to recover amounts due under the Senior Notes.

Examinership

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland is, or is likely to be, unable to pay its debts an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014 of Ireland. PGHC, the directors of PGHC, a contingent, prospective or actual creditor of PGHC, or shareholders of PGHC holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of PGHC are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant court of Ireland when a minimum of one class of creditors, whose interests are impaired under the proposals, has (i) voted in favour of the proposals, (ii) the relevant court of Ireland is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and (iii) the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed while any amounts due by PGHC under the Senior Notes were unpaid, the primary risks to the holders of Senior Notes would be as follows:

- (i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against PGHC during the period of examinership;
- (ii) a scheme of arrangement may be approved involving the writing down of the debt due by PGHC to the Noteholders irrespective of the Noteholders' views;
- (iii) in the event that a scheme of arrangement is not approved and PGHC subsequently goes into liquidation, both the examiner's and liquidator's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of PGHC and approved by the relevant court of Ireland) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by PGHC to the Noteholders under the Senior Notes or the transaction documents in connection therewith;
- (iv) while a company is under the protection of the court, no action can be taken to enforce guarantees against persons who have guaranteed the debts of the company. Whether this prohibition under Irish law would be effective in the pursuit of a foreign guarantee is a matter of the governing law of the guarantee and/or the guarantor's residence; and
- (v) where a creditor receives notice of a meeting of creditors convened by the examiner to consider and vote on his proposals for a scheme of arrangement and that creditor's debt is guaranteed by a third party, then the creditor must, within very tight deadlines, offer the guarantor the opportunity to attend and vote at the meeting in place of the creditor. If this offer is not made in writing within the statutory time period, the creditor loses its right to pursue the guarantor pursuant to the guarantee.

Risks relating to Cayman Islands Law

Preferred creditors

If PGH becomes subject to insolvency proceedings and PGH has obligations to creditors that rank senior under Cayman Islands law relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Cayman Islands law, the claims of unsecured creditors of PGH rank behind certain debts ("**Preferential Debts**") as set out in the Companies Law (as amended) of the Cayman Islands. The categories of Preferential Debts include, in broad terms, certain debts due to employees of the company, certain debts due to bank depositors (where the company in question is licensed under the Banks and Trust Companies Law (as amended)) and certain taxes due to the government of the Cayman Islands. In the case of an insolvency of PGH, this may have a material adverse effect on the ability of Noteholders to recover amounts due under the Senior Notes.

Risks relating to Notes generally

Words and expressions defined in “Terms and Conditions of the Senior Notes”, “Terms and Conditions of the Tier 3 Notes” and “Terms and Conditions of the Tier 2 Notes” below shall, as appropriate, have the same meanings in this section.

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who do not attend and vote at the relevant meeting and Noteholders who vote in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) subject (in the case of any Series of Subordinated Notes) to satisfaction of the Regulatory Clearance Condition, any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) the substitution of another company as principal debtor under any Notes in place of the relevant Issuer in each case in the circumstances described in the Terms and Conditions of the Notes. If a Newco Scheme occurs, the relevant Issuer may, without the consent of Noteholders, at its option, procure that Newco is substituted under the Notes and the Trust Deed (i) as guarantor in place of the Guarantor in relation to the Senior Notes issued by PGHC or (ii) as issuer of the Notes in place of the relevant Issuer.

In the event of any such substitution, the Trustee shall be entitled to agree to amendments of the terms of the Notes and the Trust Deed without the consent of the Noteholders. Such substitution provisions may be used in a variety of circumstances including (without limitation) at the time of the establishment of a United Kingdom holding company for the Group. If a Newco is substituted under the Notes and the Trust Deed as issuer of the Notes in place of PGH. Any such substitution shall be subject to PGH having complied with the Regulatory Clearance Condition. See *“Information on the Group - Structure of the Group”*.

PGH is likely to be substituted as principal debtor under the Notes pursuant to a NewCo Scheme without the consent of Noteholders

On 30 January 2018, PGH announced the relocation of its headquarters to the United Kingdom from Jersey. As part of its move to the United Kingdom, the Group proposes to put in place a new United Kingdom incorporated and tax resident parent company for the Group by means of a scheme of arrangement pursuant to section 86 of the Cayman Islands Companies Law (2016 Revision) (the **“Scheme”**). On completion of the Scheme, NewCo will become the new parent company of the Group. It is expected that, if the conditions to the Scheme have been satisfied, the Scheme will become effective as soon as practicable following Completion.

It is intended that, simultaneously to completion of the Scheme, NewCo will be substituted as the principal debtor in place of PGH in respect of the Group’s Subordinated Bonds, 2022 Notes and 2027 Notes. The Scheme would also constitute a Newco Scheme (as defined in the Conditions). As such, the Issuer may, without the consent of Noteholders, at its option, procure that Newco is substituted under the Notes and the Trust Deed as issuer of the Notes in place of PGH. Any such substitution shall be subject to PGH having complied with the Regulatory Clearance Condition. See *“Information on the Group – Structure of the Group”*.

No limitation on PGH issuing further securities

There is no contractual restriction on PGH creating liabilities ranking equally with or (in the case of Subordinated Notes) senior to the Notes and no restriction on the amount of securities which PGH may issue or guarantee (as applicable), which securities or guarantees rank pari passu with the Notes. The issue, guarantee or granting of security in relation to any other liabilities may reduce the amount recoverable by Noteholders in insolvency proceedings relating to the Issuer such that after payment of the claims of their respective more senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders under the Notes.

The terms of the Notes contain very limited covenants

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

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

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another similar amount, it is possible that the Notes may be traded in amounts in excess of the minimum Specified Denominations that are not integral multiples of such minimum Specified Denominations (as defined in the applicable Final Terms). In such a case a Noteholder, who as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

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

Notes subject to optional redemption by the relevant Issuer

An optional redemption feature (including one based on adverse tax consequences as is contained in the Terms and Conditions of the Senior Notes, the Tier 3 Notes and the Tier 2 Notes) is likely to limit the market value of Notes. In relation to the other special event redemption rights contained in the Terms and Conditions of the Tier 3 Notes and the Tier 2 Notes, see the risk factor entitled "*Early Redemption*" below. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes, in among other circumstances, when its cost of borrowing is lower than the interest rate on the Notes. 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 rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared with conventional interest-bearing securities with comparable maturities.

No limitation on PGHC or PGH issuing further securities

There is no contractual restriction on PGHC or PGH creating liabilities ranking equally with or senior to any Series of Subordinated Notes and no restriction on the amount of securities which PGH or PGHC may issue or guarantee (as applicable), which securities or guarantees rank *pari passu* with, or with the relevant Guarantee in respect of, any Series of Senior Notes. The negative pledge contained in the Terms and Conditions of the Senior Notes contains a number of exceptions. The issue, guarantee or granting of security in relation to any other liabilities may reduce the amount recoverable by Noteholders on a winding-up of the relevant Issuer or, as the case may be, the Guarantor. In the winding-up of the relevant Issuer or, as the case may be, the Guarantor and after payment of the claims of their respective more senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders under the relevant Series of Notes and/or (in the case of Senior Notes issued by PGHC) the relevant Guarantee.

PGH is a holding company and PGHC is a financing vehicle

PGH is the parent company of the Group. The operations of the Group are conducted by the operating subsidiaries of PGH. Accordingly, creditors of a subsidiary would have to be paid in full before sums would be available to the shareholders of that subsidiary and thereafter (by the payment of dividends to PGH) to Noteholders in respect of any payment obligations of PGH under the Notes or the Guarantee. As the equity investor in its subsidiaries, PGH's right to receive assets upon their liquidation or reorganisation will be effectively subordinated to the claims of creditors of its subsidiaries. To the extent that PGH is recognised as a creditor of such subsidiaries, PGH's claims may still be subordinated to any security interest in, or other lien on, their assets and to any of their debt or other obligations that are senior to PGH's claims. See also the risk factor entitled "*The Holding Companies are dependent upon distributions from their subsidiaries to cover operating expenses, debt interest and repayments, pension scheme contributions and dividend payments. In times of severe market turbulence, the Group may not in the longer term have sufficient capital or liquid assets to make sufficient distributions to the Holding Companies, or to meet its payment obligations, or it may suffer a loss in value*" above.

In addition, PGHC is a financing vehicle and will be dependent upon receiving income under any loans it has advanced or may advance to other Group Companies, failing which it will have to rely upon the support of the Guarantor, in order to meet its obligations under the Senior Notes. To the extent that PGHC has made or makes other loans to other Group Companies, such loans are likely to have been funded by a corresponding liability incurred by PGHC in connection with advancing such loans. See the risk factor entitled "*PGHC's ability to fulfil its obligations under the Senior Notes is dependent on the Group*" above.

Change of law

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

Legal investment considerations may restrict certain investments

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

The Issuers may not be liable to pay certain taxes

All payments by or on behalf of the Issuers in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction (as defined in the relevant Conditions), unless the withholding or deduction is required by law. In that event, in respect of payments of interest (but not principal or any other amount), the relevant Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders in respect of payments of interest after the withholding or deduction shall equal the amounts which would have been receivable in respect of interest on the Notes in the absence of such withholding or deduction.

Potential investors should be aware that neither the relevant Issuer nor any other person will be liable for or otherwise obliged to pay, and the relevant Noteholders will be liable for and/or pay, any tax, duty, charge, withholding or other payment whatsoever which may arise as a result of, or in connection with, the ownership, any transfer and/or any payment in respect of the Notes, except as provided for in the relevant Conditions.

In particular, the Subordinated Notes do not provide for payments of principal to be grossed up in the event withholding tax of the Relevant Jurisdiction is imposed on repayments of principal. As such, PGH would not be required to pay any Additional Amounts under the terms of the Subordinated Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Subordinated Notes, Noteholders may receive less than the full amount due under the Subordinated Notes and the market value of the Subordinated Notes may be adversely affected.

Risks relating to the Subordinated Notes

Words and expressions defined in “Terms and Conditions of the Tier 3 Notes” and “Terms and Conditions of the Tier 2 Notes” below shall, as appropriate, have the same meanings in this section.

Set out below is a brief description of certain additional risks relating to the Tier 2 Notes and the Tier 3 Notes:

PGH’s obligations under the Subordinated Notes are subordinated

The Tier 3 Notes will constitute direct, unsecured and subordinated obligations of PGH and rank *pari passu* and without any preference among themselves. The claims of holders of Tier 3 Notes will rank in priority to the claims of holders of the Tier 2 Notes and will rank junior to the claims of Senior Creditors (including holders of Senior Notes) in an Issuer Winding-Up and otherwise as set out in “*Terms and Conditions of the Tier 3 Notes*”.

The Dated Tier 2 Notes will constitute direct, unsecured and subordinated obligations of PGH and rank *pari passu* and without any preference among themselves. The claims of holders of Dated Tier 2 Notes will rank

junior to the claims of Senior Creditors (including holders of Senior Notes and Tier 3 Notes) in an Issuer Winding-Up and otherwise as set out in and “*Terms and Conditions of the Tier 2 Notes*”.

The Undated Tier 2 Notes will constitute direct, unsecured and subordinated obligations of PGH and rank *pari passu* and without any preference among themselves. The claims of holders of Undated Tier 2 Notes will rank junior to the claims of Senior Creditors (including holders of Senior Notes, Tier 3 Notes and (unless an Undated Notes Parity Election has been made) Dated Tier 2 Notes) in an Issuer Winding-Up and otherwise as set out in and “*Terms and Conditions of the Tier 2 Notes*”.

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

Interest payments under the Subordinated Notes must be deferred under certain circumstances

In respect of the Tier 2 Notes only, if “Optional Interest Payment Date” is specified as being applicable in the relevant Final Terms or Pricing Supplement, PGH may on any Optional Interest Payment Date elect to defer paying interest on each Optional Interest Payment Date.

All payments by PGH under or arising from any Series of Subordinated Notes are conditional upon the Solvency Condition being satisfied at the time of such payment and immediately thereafter. The Solvency Condition provides that, other than in circumstances where an Issuer Winding-Up has occurred or is occurring (but subject to Condition 3(c) of the relevant Terms and Conditions), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes or the Trust Deed are conditional upon PGH being solvent (as that term is described in Condition 3(d) of the relevant Terms and Conditions) at the time for payment by PGH and still being solvent immediately thereafter. Other than in circumstances where an Issuer Winding-Up has occurred or is occurring, no amount will be payable under or arising from the Subordinated Notes or the Trust Deed unless and until such time as PGH could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

Further, PGH is required to defer any payment of interest on any Series of Subordinated Notes pursuant to Conditions 3(d) and 5(b) in respect of the Tier 2 Notes and Conditions 3(d) and 5(a) of the Tier 3 Notes (i) in the event that such payment cannot be made in compliance with the Solvency Condition (as noted above) or (ii) on each Regulatory Deficiency Interest Deferral Date (being an 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 were made on such Interest Payment Date). The definition of Regulatory Deficiency Interest Deferral Event includes not only circumstances relating to PGH but also circumstances where the Insurance Group Parent Entity (as defined in the Conditions) or the Insurance Group itself is in breach of its capital requirements. As at the date of this Prospectus, the Insurance Group Parent Entity is Phoenix Group Holdings.

The deferral of interest as described above will not constitute a default by PGH and will not give Noteholders or the Trustee any right to accelerate repayment of the relevant Series of Subordinated Notes or take any enforcement action under such Notes or the Trust Deed for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by PGH at any time upon notice to Noteholders, but in any event shall be payable, subject to satisfaction of the Regulatory Clearance Condition (where applicable) and the Solvency Condition, on the earliest to occur of (a) the next Interest Payment Date which is not a Regulatory Deficiency Interest Deferral Date (as evidenced by delivery of the certificate referred to in Condition 5(b) in respect of the Tier 2 Notes and Condition 5(a) in respect of the Tier 3 Notes) and on which a scheduled payment of interest in respect of the Notes (or any part thereof) is made or is required to be made pursuant to these Conditions (other than a voluntary payment of Arrears of Interest), (b) the date on which an Issuer Winding-Up occurs or (c) the date fixed for any redemption or purchase of Notes

by PGH pursuant to Condition 6 (subject to any deferral of such redemption date pursuant to the Solvency Condition or Condition 6(b)(i)) or Condition 10 of the relevant Terms and Conditions.

Any actual or anticipated deferral of interest payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Subordinated Notes, the market price of such Notes may be more volatile than the market prices of other debt securities that are not subject to such deferral of interest and may be more sensitive generally to adverse changes in the financial condition of PGH and, if different, the Insurance Group Parent Entity.

See also the risk factor entitled “*Regulatory capital and other requirements may change*” above.

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

PGH must defer redemption of any Series of Subordinated Notes on the Maturity Date (if applicable) or on any other date set for redemption of such Subordinated Notes pursuant to Condition 6 of the relevant Terms and Conditions in the event that it cannot make the redemption payments in compliance with the Solvency Condition or if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Subordinated Notes were redeemed by PGH on such date. The definition of Regulatory Deficiency Redemption Deferral Event includes not only circumstances relating to PGH but also circumstances where an insurance undertaking within the Insurance Group is in an insolvent winding-up or administration in circumstances where the claims of policyholders will or may not be met in full, or any such undertaking or the Insurance Group Parent Entity or the Insurance Group itself is in breach of its Solvency Capital Requirement. As at the date of this Prospectus, the Insurance Group Parent Entity is Phoenix Group Holdings.

The deferral of redemption of the Notes will not constitute a default by PGH and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed for any purpose. Where redemption of the Notes is deferred, subject to certain conditions (including satisfaction of the Regulatory Clearance Condition (if applicable) and the Solvency Condition), the Notes will be redeemed by PGH on the earliest of (a) the date falling 10 Business Days following cessation of the Regulatory Deficiency Redemption Deferral Event or (b) the date falling 10 Business Days after the PRA has approved the repayment or redemption of the Notes (where such approval is required under the Relevant Rules) or (c) the date on which an Issuer Winding-Up occurs.

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

See also the risk factor entitled “*Regulatory capital and other requirements may change*” above.

Perpetual securities

PGH is under no obligation to redeem the Undated Tier 2 Notes at any time and the holders of Undated Tier 2 Notes have no right to call for their redemption.

Early redemption

A Series of Subordinated Notes may, subject as provided in Condition 6 of the relevant Terms and Conditions, at the option of PGH, be redeemed before the Maturity Date (if any) at their principal amount, together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption, (i)

at any time following the occurrence of a Capital Disqualification Event or (ii) in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof.

Broadly speaking, a Capital Disqualification Event will occur if, as a result of a change in the Relevant Rules (or in the official interpretation thereof) after the Issue Date, the whole or part of the relevant Series of Subordinated Notes, no longer qualifies as (in the case of Tier 2 Notes) Tier 2 Capital or (in the case of Tier 3 Notes) Tier 3 Capital for the purposes of PGH on a solo, group or consolidated basis or for the purposes of the Insurance Group on a group or consolidated basis.

Therefore, a Capital Disqualification Event would occur if only part of the principal amount of the Notes qualifies as Tier 2 Capital or Tier 3 Capital (as applicable) of PGH or the Insurance Group or a relevant undertaking within the Insurance Group.

As discussed in greater detail in the section of this Prospectus entitled “*Regulatory Overview*”, the European Union has only recently developed the Solvency II framework for insurance companies, which, amongst other things, sets out features which any instruments (including subordinated instruments issued by insurance groups such as the Subordinated Notes) must have in order to qualify as regulatory capital. There can be no assurance that the relevant implementation measures and guidelines will not be amended in the future.

Accordingly, there is a risk that after the issue of the relevant Series of Subordinated Notes, a Capital Disqualification Event may occur which would entitle PGH to redeem such Notes early at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest.

The triggers for redemption relating to changes in the tax treatment of the Notes or payments thereunder are circumstances where as a result of certain changes in, or amendments to, laws or regulations of a Relevant Jurisdiction or the application or official or generally published interpretation thereof (a) PGH would not be able to claim a deduction from taxable profits for corporation tax purposes for or in respect of interest payable on the Notes (or for a material part of such interest) in the United Kingdom or (b) PGH suffers or would suffer any other material adverse tax consequence in connection with the Notes in a Relevant Jurisdiction (as defined in the Conditions).

At the time of any such redemption by PGH, prevailing interest rates may be lower than the rate borne by the relevant Series of Subordinated Notes. If that is the case, a Noteholder may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Subordinated Notes and may only be able to do so at a significantly lower rate. In addition, PGH’s ability to redeem such Subordinated Notes at its option in certain limited circumstances may affect their market value. In particular, during any period when PGH may elect to redeem the Subordinated Notes, their market value generally will not rise substantially above the redemption price because of the optional redemption feature. This may also be true prior to any redemption period. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variation or substitution of the Subordinated Notes without Noteholder consent

In the event of certain changes in the tax treatment of the Subordinated Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof or following the occurrence of a Capital Disqualification Event or a Ratings Methodology Event, PGH may, at its option and without the consent or approval of the Noteholders (but subject as provided in Condition 6 of the relevant Terms and Conditions), at any time elect to (i) substitute the Notes for Qualifying Securities or (in the case of a Ratings Methodology Event) Rating Agency Compliant Securities or (ii) vary the terms of the Notes so that they become or remain Qualifying Securities or (in the case of a Ratings Methodology Event) Rating Agency Compliant Securities.

Restricted remedy for non-payment when due under Subordinated Notes

If default is made by PGH for a period of 14 days or more in the payment of any amount due under the Subordinated Notes, the sole remedy against PGH available to the Trustee or (where the Trustee has failed to proceed against PGH 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 PGH and/or proving in any winding-up or in any administration of PGH and/or claiming in the liquidation of PGH.

Non-payment by PGH of any amounts when due will not, of itself, render the Notes immediately due and payable at their principal amount.

Risks relating to the market generally

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

The secondary market generally

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

Interest rate risk

Investment in Notes involves the risk that changes in market interest rates after the issue date may adversely affect the value of the Notes.

In particular, a holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the “**Market Interest Rate**”). Potential movements in the Market Interest Rate over the life of the Notes are difficult to predict. While the nominal rate of a security with a fixed interest rate is fixed for a specified period, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security is likely to change in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Notes and can lead to losses for the Noteholders if they sell the Notes.

If specified in the relevant Final Terms or Pricing Supplement, on the First Reset Note Reset Date and each Reset Note Reset Date thereafter, the rate of interest on the relevant Series of Notes will be reset by reference to the then prevailing Benchmark Gilt Rate or Mid-Market Swap Rate (as applicable), and for a period equal to the Reset Period, as adjusted for any applicable margin. The reset of the rate of interest in accordance with such provisions may affect the secondary market and the market value of such Notes and, following any such reset of the rate of interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or the previous Subsequent Reset Rate of Interest, thereby reducing the amount of interest payable to Noteholders and potentially leading to losses for the Noteholders if they sell the Notes as a result of a reduction in the secondary market bid prices for such Notes.

Floating Rate Notes and Fixed Rate Reset Notes

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (LIBOR), which are used to determine the amounts payable under financial instruments or the value of such

financial instruments (“**Benchmarks**”), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark.

In particular, in a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the FCA, questioned the sustainability of LIBOR in its current form, and advocated a transition away from reliance on LIBOR to alternative reference rates. He noted that currently there is wide support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA’s intention that it will not be necessary to sustain LIBOR through its influence or legal powers by persuading, or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed. Other Benchmarks, such as EURIBOR, have also been subject of political and regulatory scrutiny and may also be discontinued.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, and LIBOR has been selected as the Reference Rate, the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where LIBOR is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available. Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued, and if LIBOR is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes, so that the Floating Rate Notes will, in effect, become permanent fixed rate notes utilising the last available LIBOR rate.

Similarly, in respect to Fixed Rate Reset Notes, where Mid-Swap Rate is specified as the basis for the Reset Rate, the Mid-Swap Rate is not displayed on the Screen Page and the specified currency is sterling, the Conditions provide for the Calculation Agent to determine the Reset Rate by reference to Mid-Swap Quotations from banks communicated to the Calculation Agent. Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of the Mid-Swap Rate), the Conditions provide for the Calculation Agent to utilise such other Benchmark as is in customary market usage in such swap transactions at the relevant time. There is no guarantee that the Calculation Agent will be able to identify such a Benchmark or that any selected Benchmark will not result in economic prejudice to Noteholders. For the avoidance of doubt, the Reset Margin may not be adjusted by the Calculation Agent.

The immediately preceding paragraphs would also reflect the potential outcomes if another Benchmark, such as EURIBOR, were to be discontinued. Uncertainty as to the continuation of LIBOR and other Benchmarks, the availability of quotes from reference banks, and the rate that would be applicable if LIBOR or another Benchmark is discontinued may adversely affect the value of, and return on, the Floating Rate Notes and the Fixed Rate Reset Notes.

Exchange rate risks and exchange controls

The relevant Issuer will pay principal and interest on the Notes in the Specified Currency. 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 the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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 the Specified Currency 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.

Credit Rating

Given the existing financial indebtedness of the Group and its acquisitive nature, the Group is dependent on its ability to access the capital markets and its cost of borrowing in these markets is influenced by the credit rating supplied by Fitch. As at the date of this Prospectus, any downgrading of the rating could increase the Group’s borrowing cost and consequently may weaken its market position. Changes in methodology and criteria used by Fitch could result in downgrades that do not reflect changes in the general economic conditions or the Issuers’ financial condition.

Effect of credit rating reduction

The value of the Notes is expected to be affected, in part, by investors’ general appraisal of the relevant Issuer’s creditworthiness. Such perceptions are generally influenced by the ratings accorded to the relevant Issuer’s outstanding securities by standard statistical rating services. A reduction in the rating, if any, accorded to outstanding debt securities of the relevant Issuer or, in the case of the Senior Notes issued by PGHC, the Guarantor by one of these rating agencies could result in a reduction in the trading value of the Notes.

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

The Notes will be issued in global form. While the Notes are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg and will receive and provide any notices only through Euroclear or Clearstream, Luxembourg.

While the Notes remain in global form, the relevant Issuer or, as appropriate in the case of the Senior Notes issued by PGHC, the Guarantor, will discharge its payment obligations under the Notes by making payments to (or, in the case of Registered Notes) to the order of the registered holder as nominee for) the common depositary for Euroclear or Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The relevant Issuer or, as appropriate in the case of the Senior Notes issued by PGHC, the Guarantor, has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Notes held through Euroclear or Clearstream, Luxembourg.

TERMS AND CONDITIONS OF THE SENIOR NOTES

The following is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Final Terms or, in the case of PD Exempt Notes, the relevant Pricing Supplement and except for the paragraphs in italics, shall be applicable to the Senior Notes in definitive form (if any) issued in exchange for the Global Note(s) or Certificates representing each Series of Senior Notes. The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or Pricing Supplement (as applicable) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. Accordingly, references in these terms and conditions to provisions “specified hereon” or “specified as such hereon” shall be to the provisions endorsed on the face of the relevant Note or Certificate or set out in the relevant Final Terms or Pricing Supplement (as applicable). The relevant Pricing Supplement in relation to any Tranche of PD Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of the relevant Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms or Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. These Conditions shall be applicable to those Notes which are specified to be “Senior Notes” in the relevant Final Terms or Pricing Supplement. References in the Conditions to “Notes” are to the Senior Notes of one Series only, not to all Notes that may be issued under the Programme.

This Note is one of a Series (as defined below) of Notes issued by [PGH Capital Public Limited Company (the “**Issuer**”) and guaranteed by Phoenix Group Holdings (the “**Guarantor**”)]* [Phoenix Group Holdings (the “**Issuer**”)]** constituted by a trust deed originally dated 21 December 2016 as amended and restated on 18 April 2018 (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”)) (the “**Trust Deed**”) between PGH Capital Public Limited Company, Phoenix Group Holdings and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Agency Agreement originally dated 21 December 2016 as amended and restated on 18 April 2018 (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between PGH Capital Public Limited Company, Phoenix Group Holdings, the Trustee, Citibank, N.A., London Branch as initial issuing and paying agent, Citigroup Global Markets Deutschland AG as registrar and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and (unless otherwise set out herein or hereon) the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders and the holders of the interest coupons (the “**Coupons**”) relating to interest-bearing Notes in bearer form and, where applicable, in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Provisions that are marked with a * only apply where PGH Capital Public Limited Company is the Issuer and provisions marked with a ** only apply where Phoenix Group Holdings is the Issuer.

1 **Form, Denomination and Title**

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State in circumstances which require the publication of a Prospectus under the Prospectus Directive (Directive 2003/71/EC, as amended), the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Fixed to Floating Rate Note, a Fixed Rate Reset Note, a Floating Rate Note, a Zero Coupon Note or a combination of the foregoing, depending upon the Interest Basis and Redemption Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass upon registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 **Transfers of Registered Notes**

(a) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer (as set out in Schedule 1 of the Trust Deed) endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same

representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of an Issuer's or Noteholder's option in respect of a holding of Registered Notes represented by a single Certificate or a partial redemption of a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) or (b) shall be available for delivery within three Business Days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or relevant Transfer Agent (as applicable) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**Business Day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) *Exchange and Transfer Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges by the person submitting such Notes or Certificates that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) *Closed Periods*

No Noteholder may require the transfer of a Note (or part thereof) to be registered during the period of 15 days ending on the due date for any payment of principal or interest.

3 Status of the Notes

(a) Status

The Notes and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 3(b)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3(b), at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations.

(b) Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), [neither the Issuer nor the Guarantor shall]* [the Issuer shall not]** directly or indirectly create or have outstanding any mortgage, charge, lien, pledge, encumbrance or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction (each a “**Security Interest**”), other than a Permitted Security Interest, upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) (other than assets representing some or all of the fund or funds maintained by the Issuer [, the Guarantor]* or any Insurance Subsidiary in respect of any contract of insurance (as defined in the FSMA 2000 (Regulated Activities) Order 2001) or to manage, make or realise investments in the ordinary course of business) to secure any Relevant Indebtedness or any guarantee or indemnity by the Issuer [or the Guarantor]* in respect of any Relevant Indebtedness unless, at the same time or prior thereto, the obligations of the Issuer [and/or the Guarantor, as the case may be,]* under the Notes and the Coupons [(in the case of the Issuer), the Guarantee (in the case of the Guarantor)]* and the Trust Deed [(in both cases)]* (i) are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee or (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided in respect of such obligations either (A) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders and the Couponholders or (B) as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

4 Guarantee

[The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all principal, interest and other sums from time to time which are due and payable in respect of the Notes and the Coupons or under, or pursuant to, the Trust Deed (“**Guaranteed Amounts**”). The obligations of the Guarantor under such guarantee (the “**Guarantee**”) constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3(b)) unsecured obligations of the Guarantor and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3(b), at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations.]*

[This Condition is intentionally left blank.]**

5 Interest and other Calculations

(a) *Interest on Fixed Rate Notes and Fixed to Floating Rate Notes*

Each Fixed Rate Note or Fixed to Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest to (but excluding), (i) in the case of Fixed to Floating Rate Notes, the Fixed Rate End Date specified hereon, and (ii) in the case of Fixed Rate Notes, the Maturity Date specified hereon, and such interest shall be payable in arrear on each Interest Payment Date specified hereon. The amount of interest payable shall be determined in accordance with Condition 5(g).

(b) *Interest on Fixed Rate Reset Notes*

Each Fixed Rate Reset Note bears interest on its outstanding principal amount:

- (i) from (and including) the Interest Commencement Date until (but excluding) the First Reset Note Reset Date at the Initial Rate of Interest;
- (ii) from (and including) the First Reset Note Reset Date until (but excluding) the first Anniversary Date at the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

and such interest shall be payable, in each case, in arrear on the Interest Payment Dates specified hereon. The amount of interest payable shall be determined in accordance with Condition 5(g).

Save as otherwise provided herein, the provisions applicable to Fixed Rate Notes shall apply to Fixed Rate Reset Notes.

(c) *Interest on Floating Rate Notes and Fixed to Floating Rate Notes*

(i) Interest Payment Dates

Each Floating Rate Note and each Fixed to Floating Rate Note bears interest on its outstanding principal amount from (and including), in the case of a Floating Rate Note, the Interest Commencement Date and, in the case of a Fixed to Floating Rate Note, the Fixed Rate End Date specified hereon at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest shall be payable in arrear on each Interest Payment Date in the case of a Floating Rate Note and on each Interest Payment Date commencing after the Fixed Rate End Date specified hereon in the case of a Fixed to Floating Rate Note. The amount of interest payable shall be determined in accordance with Condition 5(g). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, “**Interest Payment Date**” shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first such Interest Payment Date, after the Interest Commencement Date, in the case of a Floating Rate Note, or after the Fixed Rate End Date, in the case of a Fixed to Floating Rate Note.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified hereon is (A) the Floating Rate

Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes and Fixed to Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes and, from and including the Fixed Rate End Date, Fixed to Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each relevant Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified as such hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise specified hereon, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR), on

the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the rate of interest shall be the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing

provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

Unless otherwise specified hereon, the Minimum Rate of Interest shall be deemed to be zero.

(d) Zero Coupon Notes

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date specified hereon and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note (as described in Condition 6(b)(i)). As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(e) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(f) Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding

- (i) If any Margin is specified hereon (either (x) generally or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(c) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Final Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(g) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula

for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated. Where the Specified Denomination comprises more than one Calculation Amount, the amount of interest payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination specified hereon.

(h) *Linear Interpolation*

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(i) *Determination and Publication of Rates of Interest and Interest Amounts*

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or Reset Determination Date (as applicable), or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in any event no later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so

calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5 by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, [the Guarantor,]* the Issuing and Paying Agent, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or fraud) no liability to the Issuer, [the Guarantor,]* the Noteholders or the Couponholders shall attach to the Issuing and Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(k) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Issuing and Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 16.

(l) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Anniversary Date**” means the date specified as such hereon;

“**Applicable Maturity**” has the meaning given to it in Condition 5(h);

“**Benchmark Frequency**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Benchmark Gilt**” means, in respect of a Reset Period, the Benchmark Gilt specified in the applicable Final Terms or Pricing Supplement or, if no Benchmark Gilt is so specified or if the relevant Benchmark Gilt is no longer outstanding at the relevant time, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reset Reference Banks, may determine to be appropriate.

“**Benchmark Gilt Rate**” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt Rate will be the rounded

arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer [and the Guarantor]*.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Additional Business Centres specified hereon, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres.

“**Business Day Convention**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Broken Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Calculation Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual - ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

(vi) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

(vii) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30; and

(viii) if “**Actual/Actual-ICMA**” is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“**Determination Date**” means the date specified as such hereon or, if none is so specified, the Interest Payment Date; and

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**dealing day**” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities.

“**Eurozone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**First Reset Note Reset Date**” means the date specified as such hereon.

“**First Reset Period**” means the period from (and including) the First Reset Note Reset Date until (but excluding) the first Anniversary Date.

“**First Reset Rate of Interest**” means the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate plus the Reset Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the First Reset Period (such calculation to be made by the Calculation Agent)).

“**Fixed Leg**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Fixed Rate End Date**” means the date specified as such hereon.

“**Floating Leg**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Floating Rate Business Day Convention**” has the meaning given to it in Condition 5(c).

“**Following Business Day Convention**” has the meaning given to it in Condition 5(c).

“**Initial Rate of Interest**” means the initial rate of interest per annum specified hereon.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date, in respect of the Floating Rate Notes, and the Fixed Rate End Date, in respect of the Fixed to Floating Rate Notes, and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means, in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, Fixed Rate Reset Notes, and, prior to the Fixed Rate End Date, Fixed to Floating Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and, in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified: (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Payment Date**” has the meaning given to it in Condition 5(c).

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified hereon.

“**ISDA Definitions**” means the 2006 ISDA Definitions as amended or supplemented, as published by the International Swaps and Derivatives Association, Inc. unless otherwise specified hereon.

“**ISDA Determination**” has the meaning given to it in Condition 5(c).

“**ISDA Rate**” has the meaning given to it in Condition 5(c).

“**Margin**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Mid-Swap Quotations**” means the arithmetic mean of the bid and offered rates:

- (i) if the Specified Currency is sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in sterling which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant

Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis) (or, if such 6-month LIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon;

- (ii) if the Specified Currency is euro, for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis) (or, if such 6-month EURIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon;
- (iii) if the Specified Currency is US dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in US dollars which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis) (or, if such 3-month LIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon; and
- (iv) if the Specified Currency is not sterling, euro or US dollars, for the Fixed Leg (as set out hereon) of a fixed for floating interest rate swap transaction in that Specified Currency which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a Floating Leg (as set out hereon) (or, if such Floating Leg has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time).

“Mid-Swap Rate” means in respect of a Reset Period, (i) the applicable semi-annual or annual (as specified hereon) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified hereon) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate;

“Modified Following Business Day Convention” has the meaning given to it in Condition 5(c).

“Preceding Business Day Convention” has the meaning given to it in Condition 5(c).

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market or in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“**Reference Rate**” means LIBOR or EURIBOR, in each case for the relevant period, as specified hereon.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“**Reset Determination Date**” means, in respect of a Reset Period, (a) each date specified as such hereon or, if none is so specified, (b) (i) if the Specified Currency is sterling, the first Business Day of such Reset Period, (ii) if the Specified Currency is euro, the day falling two TARGET Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is US dollars, the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period;

“**Reset Margin**” means the margin (expressed as a percentage) specified as such hereon.

“**Reset Note Reset Date**” means every date which falls on each Anniversary Date as may be specified hereon.

“**Reset Period**” means the First Reset Period or a Subsequent Reset Period.

“**Reset Rate**” means (a) if “Mid-Swap Rate” is specified hereon, the relevant Mid-Swap Rate or (b) if “Benchmark Gilt Rate” is specified hereon, the relevant Benchmark Gilt Rate;

“**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11:00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer [and the Guarantor]*.

“**Reset Reference Banks**” means (i) in the case of the calculation of a Reset Reference Bank Rate, five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Calculation Agent in consultation with the Issuer [and the Guarantor]* or (ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in consultation with the Issuer [and the Guarantor]*.

“**Screen Page**” means Reuters screen page “ICESWAP1”, “ICESWAP2”, “ICESWAP3”, “ICESWAP4”, “ICESWAP5” or “ICESWAP6” as specified hereon or such other page on Thomson Reuters as is specified hereon, or such other screen page as may replace it on Thomson Reuters or, as

the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates.

“**Screen Rate Determination**” has the meaning given to it in Condition 5(c).

“**Specified Currency**” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“**Subsequent Reset Period**” means each successive period other than the First Reset Period from (and including) a Reset Note Reset Date to (but excluding) the next succeeding Reset Note Reset Date.

“**Subsequent Reset Rate of Interest**” means, in respect of any Subsequent Reset Period, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate plus the Reset Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the relevant Subsequent Reset Period (such calculation to be made by the Calculation Agent)).

“**Swap Rate Period**” means the period or periods specified as such hereon.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

(m) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agent(s) if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its principal amount), together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions.

(b) Early Redemption Amounts

(i) Zero Coupon Notes

- (A) The Optional Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 6(d) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the “**Amortised Face Amount**” of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted back to the due date for payment at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the Issue Price of the first tranche of the Notes if they were discounted back to the Issue Price of the first tranche of the Notes on the Issue Date) compounded annually.
- (C) If the Optional Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(d) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Optional Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), 6(d) or 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) Redemption at the Option of the Issuer

Unless the Issuer shall have given notice to redeem the Notes under Condition 6(d) on or prior to the expiration of the notice referred to below, and if “Call Option” is specified hereon, the Issuer may at its option, and having given not less than 30 nor more than 60 days’ notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date specified hereon.

Any such redemption of Notes shall be at their Optional Redemption Amount (as may be provided for hereon) together with any interest accrued to (but excluding) the date fixed for redemption in accordance with these Conditions. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

If more than one notice of redemption is given pursuant to this Condition 6, the first of such notices to be given shall prevail.

(d) *Redemption for Taxation Reasons*

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the Issue Date [(a)]* on the next Interest Payment Date, the Issuer will or would be required to pay Additional Amounts; [or (b) on the next Interest Payment Date, the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and, in making payment of Guaranteed Amounts, will or would be required to pay Additional Amounts;]* and
- (ii) the effect of the foregoing cannot be avoided by the Issuer [or the Guarantor, as the case may be,]* taking reasonable measures available to it,

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 16, the Noteholders (which notice shall specify the date set for redemption and shall, subject as aforesaid, be irrevocable) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Early Redemption Amount (which, unless otherwise specified hereon, shall be their principal amount) together with any accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer [or, as the case may be, the Guarantor]* would be obliged to pay such additional amounts.

Subject as aforesaid, upon expiry of such notice the Issuer shall redeem the Notes.

If more than one notice of redemption is given pursuant to this Condition 6, the first of such notices to be given shall prevail.

(e) *Redemption at the Option of Noteholders*

If a Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon together, if applicable with any accrued and unpaid interest to (but excluding) the date of redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its

specified office, together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer, save that in circumstances where an Event of Default has occurred such Exercise Notice may be withdrawn and shall be revocable without the consent of the Issuer.

If more than one notice of redemption is given pursuant to this Condition 6, the first of such notices to be given shall prevail.

(f) Purchases

The Issuer[, the Guarantor and any of the Guarantor’s other Subsidiaries]* [and any of its Subsidiaries]** may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in any manner and at any price.

(g) Cancellation

All Notes purchased by or on behalf of the Issuer [, the Guarantor or any other Subsidiary of the Guarantor]* [or any of its Subsidiaries]** may be held, reissued, resold or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). 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 and Coupons shall be discharged.

(h) Trustee role on redemption; Trustee not obliged to monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of Condition 6(d) and will not be responsible to Noteholders or Couponholders for any loss arising from any failure by it to do so. Unless and until the Trustee has express notice pursuant to these Conditions or the Trust Deed of the occurrence of any event or circumstance to which Condition 6(d) relates, it shall be entitled to assume that no such event or circumstance exists or has arisen.

(i) Compliance with stock exchange rules

In connection with any redemption of the Notes in accordance with this Condition 6, the Issuer [and the Guarantor]* shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

7 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the U.S. by transfer to an account denominated in such currency with, a bank in the principal

financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) Registered Notes

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register (i) where all or any of the Registered Notes are represented by a Global Certificate, at the close of the business day (being for this purpose a day on which DTC, Euroclear and/or Clearstream, Luxembourg, as applicable, are open for business) before the due date for payment thereof, and (ii) where none of the Registered Notes is represented by a Global Certificate at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency and to the holder (or to the first named of joint holders) of such Note by transfer to an account in the relevant currency maintained by the payee with a bank.

(c) Payments in the U.S.

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the U.S. with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such Payment is then permitted by U.S. law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments subject to Fiscal Laws

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

(e) Appointment of Agents

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer (for all purposes other than ISDA Determination for Floating Rate Notes, where the Calculation Agent will be specified in the Final Terms or Pricing Supplement, as applicable) and their respective specified offices are listed above. Subject as provided in the Agency Agreement, the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents, Calculation Agents or Transfer

Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) a Paying Agent.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c).

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified hereon.

(f) *Unmatured Coupons and unexchanged Talons*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than any Fixed Rate Notes where the total value of the unmatured coupons appertaining thereto exceeds the nominal amount of such Note), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount as the case may be and as may be provided for hereon, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Fixed to Floating Rate Note, a Fixed Rate Reset Note or a Floating Rate Note or (where the total value of the unmatured coupons exceeds the nominal amount of such Note) a Fixed Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days**

If any date for payment in respect of any Note or Coupon 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 this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Additional Financial Centres” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons [, and all payments of Guaranteed Amounts in respect of principal and interest by or on behalf of the Guarantor under the Guarantee,]* shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by a Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer [, or, as the case may be, the Guarantor,]* shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) *Other connection*: presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) *Lawful avoidance of withholding*: presented for payment by, or by a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) *Presentation more than 30 days after the Relevant Date*: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day after the Relevant Date; or
- (d) *Any combination*: where such withholding or deduction arises out of any combination of paragraphs (a) to (c) above.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon 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 (or relevant Certificate) or Coupon 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 (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 6 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, it pursuant to the Trust Deed (“**Additional Amounts**”).

9 Prescription

Claims against the Issuer for payment in respect of principal and interest payable on the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them. [Claims against the Guarantor for payment in respect of Guaranteed Amounts shall be prescribed and become void unless made within 10 years (in the case of Guaranteed Amounts relating to principal) or five years (in the case of Guaranteed Amounts relating to interest) from the appropriate Relevant Date in respect of them.]*

10 Events of Default and Enforcement

(a) *Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified, prefunded and/or provided with security to its satisfaction) (but, in the case of the occurrence of any of the events described in Condition 10(a), (vii) and (viii) below, only if the Trustee shall have certified in writing to the Issuer [and the Guarantor]* that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice to the Issuer [and the Guarantor]* that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount, together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing (“**Events of Default**”):

- (i) *Non-Payment*: default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (ii) *Breach of Other Obligation*: the Issuer [or the Guarantor]* fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer [or the Guarantor, as the case may be,]* of notice requiring the same to be remedied; or

- (iii) *Cross-Default*: (i) any Indebtedness, other than Indebtedness issued, incurred or subsisting between members of the Group, of the Issuer [, the Guarantor]* or any Material Subsidiary becomes due and payable and is accelerated prior to the stated maturity thereof by reason of any actual or potential event of default or the like (however described); (ii) the Issuer [, the Guarantor]* or any Material Subsidiary fails to make any payment in respect of any Indebtedness, other than Indebtedness issued, incurred or subsisting between members of the Group, on the due date for payment as extended by any originally applicable grace period; (iii) any mortgage, charge, pledge, lien or other encumbrance created or assumed by the Issuer [, the Guarantor]* or any Material Subsidiary for any Indebtedness, other than Indebtedness issued, incurred or subsisting between members of the Group, becomes enforceable and any step is taken to enforce the same; unless the aggregate amount of Indebtedness from time to time outstanding relating to all or any of the above events is less than £50,000,000 (or the equivalent in any other currency); or
- (iv) *Winding-Up*: any order is made by any competent court or resolution is passed for the winding up, liquidation or dissolution of the Issuer [, the Guarantor]* or any Material Subsidiary, save (i) for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution or (ii) for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent; or
- (v) *Cessation of Business*: the Issuer [, the Guarantor]* or the Group ceases or threatens to cease to carry on all or, in the opinion of the Trustee, substantially all of its business, save for the purposes of an amalgamation, merger, consolidation, transfer, reorganisation or restructuring whilst solvent (on terms approved in writing by the Trustee or by an Extraordinary Resolution); or
- (vi) *Insolvency*: (i) the Issuer [, the Guarantor]* or any Material Subsidiary stops or is unable to pay its debts (or any class of its debts) as they fall due, or suspends or threatens to stop payment of its debts, or (ii) proceedings are initiated against the Issuer [, the Guarantor]* or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, examiner, administrator or other similar official, or an administrative or other receiver, manager, examiner, administrator or other similar official is appointed, in relation to the Issuer [, the Guarantor]* or any Material Subsidiary, as the case may be, in relation to all or, in the opinion of the Trustee, substantially all of the undertakings or assets of any of them or an encumbrancer takes possession of all or, in the opinion of the Trustee, substantially all of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or, in the opinion of the Trustee, substantially all of the undertaking or assets of any of them, and (iii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 30 days, save in each case for the purposes of or pursuant to an amalgamation, reorganisation or restructuring of the Issuer [or the Guarantor]* or any Material Subsidiary, as the case may be, whilst solvent; or
- (vii) *Ownership*: other than in circumstances where the Guarantor (or any previous Substitute Obligor) or Newco is substituted in place of the Issuer as Substitute Obligor in accordance with the provisions of Condition 12, the Issuer ceases to be controlled and majority owned by members of the Group; or]*
- (viii) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or

registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer [and the Guarantor]* lawfully to enter into, exercise [their respective]* [its]** rights and perform and comply with [their respective]* [its]** obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of [Ireland and]* the Cayman Islands is not taken, fulfilled or done; or

- (ix) [*Guarantee*: other than in circumstances where the Guarantor (or any previous Substitute Obligor) or Newco is substituted in place of the Issuer as Substitute Obligor in accordance with the provisions of Condition 12, the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or]*
- (x) *Analogous Events*: any event occurs which, under the laws of any relevant jurisdiction, has or may have an analogous effect to any of the events referred to in subparagraphs (iv) and (vi) above.

(b) Enforcement

At any time after the Notes become due and payable, the Trustee [(subject to Condition 10(e))]* may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer [and/or the Guarantor]* as it may think fit to enforce the terms of the Trust Deed and the Notes.

(c) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in this Condition 10 against the Issuer [or the Guarantor]* to enforce the terms of the Trust Deed, the Notes or the Coupons or any other action under or pursuant to the Trust Deed unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one fifth in principal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(d) Right of Noteholders and Couponholders

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer [or the Guarantor]* unless the Trustee, having become so bound to proceed, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholders and the Couponholders shall have only such rights against the Issuer [and the Guarantor (as the case may be)]* as those which the Trustee is entitled to exercise as set out in this Condition 10.

(e) [Non-petition

None of the Noteholders or Couponholders (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer or join in the institution against the Issuer proceedings in respect of bankruptcy, administration, moratorium, controlled management, arrangement, insolvency, examinership, winding-up, liquidation or insolvency (“**Insolvency Proceedings**”) under any applicable bankruptcy or similar law in connection with any obligations of the Issuer relating to the Notes, the Coupons or the Trust Deed. For the avoidance of doubt, the foregoing shall not restrict the Noteholders or the Couponholders (or any person acting on behalf of any of them) from instituting any other proceedings against the Issuer or obtaining a judgment against the Issuer, even if such judgment may result in the Issuer becoming insolvent, provided such judgement shall not be enforced by instituting Insolvency Proceedings against the Issuer.

No Noteholder or Couponholder shall have any recourse against any Director of the Issuer in their capacity as director of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes, the Coupons or the Trust Deed, other than in the case of fraud.]*

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution (as defined in the Trust Deed) of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, [the Guarantor,]* the Trustee or Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting 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 or representing Noteholders whatever the principal amount of the Notes held or represented, except that, at any meeting the business of which falls within the proviso to paragraph 2 of Schedule 3 to the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. 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) and on all Couponholders.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding or consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of holders of not less than 75 per cent. in principal amount of the Notes outstanding who would have been entitled to vote upon it if it had been proposed at a meeting at which they were present shall take effect as if it were an Extraordinary Resolution. A resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The agreement or approval of the Noteholders shall not be required in the case of any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer [or the Guarantor]* upon the substitution of a Newco pursuant to Condition 12.

(b) *Modification of the Trust Deed*

In addition to the requirements of Condition 12, the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed: (i) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (ii) which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error. For the avoidance of doubt, such power shall not extend to any such modification as mentioned in the proviso to paragraph 2 of Schedule 3 to the Trust Deed unless required for any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with the substitution of a Newco pursuant to Condition 12.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders and Couponholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, [the Guarantor,]* the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(d) ***Notification to the Noteholders***

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 11 shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

12 Substitution

(a) ***Discretion to agree to substitution***

The Trust Deed contains provisions permitting the Trustee to agree, subject to (a) such substitution not being, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, (b) certain additional conditions set out in the Trust Deed being satisfied (including no negative rating event with respect to the Notes) and (c) such amendment of these Conditions, the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders:

- (i) to the substitution of [the Guarantor or its successor in business]* [a successor in business of the Issuer]** in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes; or
- (ii) to the substitution of the Insurance Group Parent Entity in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes [and, in such case, the Guarantee shall be terminated (such that the Notes are directly issued by the Insurance Group Parent Entity on an unguaranteed basis)]*; or
- (iii) (subject to the Notes [remaining]* [being]** unconditionally and irrevocably guaranteed on an unsubordinated basis [, in accordance with Condition 4, by the Guarantor]* [by the Issuer]**), to the substitution of a Subsidiary or parent company of the Issuer or its successor in business in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes [; or]* [,]**
- (iv) [to the substitution of a successor in business to the Guarantor in place of the Guarantor or any previous substitute under this Condition 12,]*

any such substitute, and any substitute pursuant to a Newco Scheme as described below, being a “**Substituted Obligor**”.

(b) *Mandatory substitutions*

If a Newco Scheme occurs, the Issuer may, without the consent of the Noteholders, at its option, procure that (pursuant to the Newco Scheme or otherwise) Newco is substituted under the Notes and the Trust Deed[:]* [as Issuer in place of the Issuer (or any previous substitute therefor under this Condition 12), and upon such substitution all references to “the Issuer” hereunder will be construed as references to Newco and the obligations of Phoenix Group Holdings (or the relevant previous substitute) as Issuer under the Notes and the Trust Deed will, without any further formality (including, without limitation, the execution of any agreement or deed) be terminated.]***

- (i) [as Guarantor in place of the Guarantor (or any previous substitute therefor under this Condition 12), and upon such substitution all references to “the Guarantor” hereunder will be construed as references to Newco and the obligations of Phoenix Group Holdings (or the relevant previous substitute) as guarantor under the Notes and the Trust Deed will, without any further formality (including, without limitation, the execution of any agreement or deed), be terminated; or
- (ii) as Issuer in place of the Issuer (or any previous substitute therefor under this Condition 12), and upon such substitution all references to “the Issuer” hereunder will be construed as references to Newco, the Guarantee shall be terminated (such that the Notes are directly issued by Newco on an unguaranteed basis) and the obligations of Phoenix Group Holdings (or the relevant previous substitute) as guarantor and PGH Capital Public Limited Company (or the relevant previous substitute) as Issuer under the Notes and the Trust Deed will, without any further formality (including, without limitation, the execution of any agreement or deed) be terminated.]**

The Trustee shall (at the expense of the Issuer [, failing whom the Guarantor]*) use its reasonable endeavours to co-operate with the Issuer [and the Guarantor]* (including, but not limited to, entering into such documents or deeds (if any) as may be necessary) to give effect to such substitution, including approving, without the need for the consent or approval of the Noteholders or Couponholders, such amendments to these Conditions, the Trust Deed and/or the Agency Agreement as the Trustee considers necessary or expedient in connection with such substitution.

(c) *Change of law*

In the case of a substitution pursuant to this Condition 12, the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change or the substitution would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) *Notice to Noteholders*

The Issuer [, failing whom the Guarantor,]* will give notice of any substitution pursuant to this Condition 12 to Noteholders in accordance with Condition 16 as soon as reasonably practicable following such substitution.

13 Indemnification of the Trustee and its Contracting with the Issuer [and the Guarantor]*

(a) *Indemnification and protection of the Trustee*

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer, [the Guarantor,]* the Noteholders and the Couponholders, including (i) provisions relieving it from taking action unless indemnified and/or

secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

(b) *Trustee contracting with the Issuer [and the Guarantor]**

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

(c) *Reports and certificates*

The Trust Deed provides that the Trustee may rely and act upon the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors of the Issuer [or the Guarantor]*), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, [the Guarantor,]* the Trustee or otherwise, whether or not addressed to the Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Trustee may also rely and act upon certificates and/or information addressed to it from, or delivered by, the Issuer, [the Guarantor,]* any Substituted Obligor or any one or more Directors of the Issuer [, the Guarantor]* or any Substituted Obligor or any of their respective auditors, liquidators, administrators or other insolvency officials. The Trustee will not be responsible to anyone for any liability occasioned by so relying and acting. Any such advice, opinion, information or certificate may be sent or obtained by letter, email, electronic communication or fax and the Trustee shall not be liable for acting in good faith on any advice, opinion, information or certificate purporting to be conveyed by such means even if it contains an error or is not authentic.

14 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent. as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount

payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders 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 amount and date of the first payment of interest on them and the date from which interest starts to accrue) 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 Issue Date shall be to the Issue Date of the first Tranche of Notes of any Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 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

Notices to the holders of Registered Notes shall be valid if mailed to them at their respective addresses in the Register and deemed to be given on the fourth weekday (being a day other than a Saturday or Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the relevant Notes are then admitted to trading and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

17 Contracts (Rights of Third Parties) Act 1999

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

18 Definitions

As used herein:

“**Acquired Debt**” means, with respect to any specified Person, Indebtedness of any other Person existing at the time such other Person is merged, consolidated, amalgamated or otherwise combined with or into or is acquired by or otherwise becomes a Subsidiary of such specified Person, provided that such Indebtedness is not incurred for the purpose of or to facilitate such other Person merging, consolidating, amalgamating or otherwise combining with or into, or being acquired by or otherwise becoming a Subsidiary of, such specified Person;

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

“**Additional Financial Centres**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

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

“**Amortisation Yield**” has the meaning given to it in Condition 6(b) or the relevant Final Terms or Pricing Supplement, as applicable;

“**Amortised Face Amount**” has the meaning given to it in Condition 6(b);

“**Asset Management Subsidiary**” means any member of the Group from time to time which has, for the time being, a permission under Part IV of FSMA to carry out activities under Chapters V, VI, VII, VIII or XII of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and which is not an Insurance Subsidiary (or where such member of the Group conducts or is intending to conduct business outside the UK, a substantially similar permission, to the extent applicable to such business in the relevant jurisdiction) in respect of (without limitation) investment management, asset management and/or investment advice;

“**Asset Management Subsidiary Asset**” means any asset held or managed by an Asset Management Subsidiary on behalf of any member of the Group or for the benefit of a third party which is not a member of the Group;

“**Bearer Notes**” has the meaning given to it in Condition 1;

“**Calculation Agent(s)**” has the meaning given in the preamble to these Conditions or, in the case of Condition 5(c)(iii)(A), as defined therein;

“**Call Option**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Certificates**” has the meaning given in Condition 1;

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

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

“**Directors**” means the directors of the Issuer [, the Guarantor,]* or a Substituted Obligor (as the case may be) from time to time;

“**Early Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**EIOPA**” means the European Insurance and Occupational Pensions Authority;

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

“**Events of Default**” has the meaning given to it in Condition 10(a);

“**Exercise Notice**” has the meaning given to it in Condition 6(e);

“**Existing Bank Debt**” means existing and future indebtedness incurred or to be incurred pursuant to the revolving credit agreement dated 23 July 2014, as amended and restated on 21 March 2016, between PGH Capital Public Limited Company, Phoenix Group Holdings and Commerzbank Finance & Covered Bond S.A. (as agent), among others as amended, restated and/or extended from time to time;

“**Existing Security Interests**” means any Security Interest existing as at the Issue Date;

“**Existing Shareholders**” has the meaning ascribed to it in the definition of Newco Scheme;

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Final Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**FSMA**” means the UK Financial Services and Markets Act 2000;

“**Group**” means the Issuer [, the Guarantor and the Guarantor’s]* [and its]** consolidated subsidiaries taken as a whole;

[“**Guarantee**” has the meaning given in Condition 4;

“**Guaranteed Amounts**” has the meaning given in Condition 4;

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

“**Holder**” has the meaning given to it in Condition 1;

“**IFRS**” means International Financial Reporting Standards as set out in the Group’s most recent published financial statements;

“**Indebtedness**” means any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation and in each case without double counting, (i) any amount raised under any acceptance credit facility, (ii) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument, (iii) any amount raised under any other transaction (including any forward sale or purchase agreement and the principal component of all obligations, or liquidation preference, of such Person with respect to any preferred stock or redeemable stock (but excluding, in each case, any accrued dividends)) having the economic effect of a borrowing and treated as such under IFRS, (iv) any finance leases, (v) deferred purchase price or conditional sale obligations, (vi) hedging obligations entered into for speculative purposes (but for the avoidance of doubt, excluding hedging obligations entered into other than for speculative purposes), (vii) guarantees by such Person of the principal component of Indebtedness of other Persons to the extent guaranteed by such Person and (viii) the amount of any liability in respect of any guarantee, security or indemnity for any of the items referred to above, including of other Persons;

[“**Insolvency Proceedings**” has the meaning given to it in Condition 10(e);]*

“**Insurance Group**” means the Insurance Group Parent Entity and its Subsidiaries;

“**Insurance Group Parent Entity**” means the [Issuer/Guarantor*], or any Subsidiary or parent company of the [Issuer/Guarantor*] which from time to time constitutes the highest entity in the relevant insurance group for which supervision of group capital resources or solvency is required (whether or not such requirement is waived in accordance with the Relevant Rules) pursuant to the Regulatory Capital Requirements in force from time to time;

As at the date of this Prospectus, the Insurance Group Parent Entity is the [Issuer/Guarantor].*

“**Insurance Subsidiary**” means any member of the Group from time to time which has, for the time being, a permission under Part IV of FSMA (or where such member of the Group conducts or is intending to conduct business outside the UK, a substantially similar permission, to the extent applicable to such business in the relevant jurisdiction) to effect and/or carry out contracts of insurance or in respect of reinsurance, but excluding, for the avoidance of doubt, Investment Vehicles and Share Scheme Vehicles;

“**Interest Basis**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Interest Commencement Date**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Interest Payment Date**” has the meaning given to it in Condition 5(c);

“**Investment Vehicle**” means any entity (whether or not such entity is a body corporate), including compartments thereof, from time to time, in each case provided Investors (as defined below) do not have operational control over the investment activities in respect thereof (save as customarily contained in investment management agreements, mandates or similar arrangements):

- (a) the primary purpose of which is to make investments on behalf of or to raise capital from members of the Group (together, excluding any Asset Management Subsidiary, the “**Investors**”) and/or third party investors to invest in accordance with a defined investment policy (as may be amended from time to time); or
- (b) in which funds from Investors are used to participate in joint ventures; or
- (c) in which funds are invested by any entity described in (a) or (b) above; or
- (d) the primary purpose of which is to act as a general partner, managing limited partner, management company (or other entity with similar purpose) in respect of any entity referred to in paragraphs (a), (b) or (c) above;

“**Issue Date**” has the meaning given in the preamble of these Conditions;

“**Issue Price**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

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

“**Issuing and Paying Agent**” has the meaning given in the preamble to these Conditions;

“**Level 2 Regulations**” means the Commission Delegated Regulation (EU) No. 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II);

“**London Stock Exchange**” means the London Stock Exchange plc;

“**Maximum Rate of Interest**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Maximum Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Material Subsidiary**” means at any time a direct or indirect Subsidiary of the Issuer [or the Guarantor]* which has net assets representing 5 per cent. or more of the consolidated net assets of the Group, calculated on a consolidated basis in accordance with the then most recent audited consolidated financial statements of [the Guarantor,]* [the Issuer,]** unless in each case such Person has transferred all or substantially all of its assets to another Person pursuant to an insurance business transfer scheme made under Part VII of FSMA. If a Person becomes a member of the Group after the end of the financial period to which the most recent

published consolidated financial statements of the Group relate, those financial statements shall be adjusted as if that Person had been shown in them by reference to its then latest audited financial statements and until published consolidated financial statements of the Group for the financial period in which the acquisition is made have been published. For the purpose of this definition, a certificate of two directors of [the Guarantor]* [the Issuer]** (whether or not addressed to the Trustee) that in their opinion a Subsidiary of the Issuer [or the Guarantor]* is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without liability to any person and without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties;

“**Maturity Date**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Member State**” means a member of the EEA;

“**Minimum Rate of Interest**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Minimum Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Newco**” has the meaning ascribed to it in the definition of Newco Scheme;

“**Newco Scheme**” means a scheme of arrangement or analogous proceeding (“**Scheme of Arrangement**”) which effects the interposition of a limited liability company (“**Newco**”) between the shareholders of [the Guarantor]* [the Issuer]** immediately prior to the Scheme of Arrangement (the “**Existing Shareholders**”) and [the Guarantor]* [the Issuer]**; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of [the Guarantor]* [the Issuer]**; (iv) all Subsidiaries of [the Guarantor]* [the Issuer]** immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of [the Guarantor]* [the Issuer]**) are Subsidiaries of [the Guarantor]* [the Issuer]** (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement [the Guarantor]* [the Issuer]** (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by [the Guarantor]* [the Issuer]** immediately prior to the Scheme of Arrangement;

“**Non-recourse Borrowings**” means any Indebtedness for moneys borrowed to finance the ownership, acquisition, development and/or operation of an asset (including in respect of value in force, embedded value or analogous financings) in respect of which the person or persons to whom any such indebtedness for moneys borrowed is or may be owed by the relevant borrower has or have no recourse whatsoever to the Issuer [, the Guarantor or any Material Subsidiary of the Guarantor]* [or any Material Subsidiary of the Issuer]** for the repayment thereof other than: (a) recourse to such borrower for amounts limited to the cash flow or net cash flow from such asset; and/or (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure indebtedness for moneys borrowed, provided that (i) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on such enforcement, and (ii) such person or persons are not entitled, by virtue of any right or claim arising out of or in connection with such

indebtedness for moneys borrowed, to commence proceedings for the winding-up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or (c) recourse to such borrower generally, or directly or indirectly to the Issuer [, the Guarantor or any Material Subsidiary of the Guarantor]* [or any Material Subsidiary of the Issuer]**, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof) by the person against whom such recourse is available;

“**Noteholder**” has the meaning given to it in Condition 1;

“**Optional Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Optional Redemption Date**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**ordinary course of business**” includes, without limitation:

- (a) in respect of an Insurance Subsidiary:
 - (i) inwards or outwards insurance or reinsurance business carried out by such Insurance Subsidiary;
 - (ii) inwards or outwards transfers of insurance policies undertaken by such Insurance Subsidiary under Part VII of FSMA or any successor legislation thereto;
 - (iii) stock lending transactions undertaken by or on behalf of such Insurance Subsidiary;
 - (iv) investment business undertaken by or on behalf of such Insurance Subsidiary; and
 - (v) any other activities carried out in accordance with paragraph 9.1 of the chapter entitled “Conditions Governing Business” of the PRA Rulebook for Solvency II Firms (or any successor thereto or replacement thereof) forming part of the handbook of rules and guidance published by the Prudential Regulation Authority (or any successor thereof) of the United Kingdom;
- (b) in respect of an Asset Management Subsidiary, carrying out asset management activities, investment management activities and/or providing investment advice, and ancillary activities related thereto;
- (c) in respect of members of the Group which are not an Asset Management Subsidiary or an Insurance Subsidiary, carrying out financial investment activities, treasury activities (such as buying and selling securities and other investments, non-speculative hedging activity and related credit support activities, but for the avoidance of doubt excluding the issuance of Indebtedness) and/or service company activities;

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

“**Permitted Security Interest**” means any Security Interest:

- (a) arising by operation of law;
- (b) arising in connection with Non-recourse Borrowings;
- (c) arising in connection with Indebtedness issued, incurred or subsisting between members of the Group;
- (d) arising in respect of deferred payment terms which are paid within six months;

- (e) arising (i) in the ordinary course of business of, or on behalf of, an Insurance Subsidiary or an Asset Management Subsidiary, (ii) (to the extent not already covered by (i)) in respect of any assets representing some or all of the fund or funds maintained by the Issuer [, the Guarantor]* or any Insurance Subsidiary in respect of any contract of insurance (as defined in the FSMA 2000 (Regulated Activities) Order 2001) or (iii) in respect of any Asset Management Subsidiary Asset;
- (f) arising in connection with any pension scheme relating to employees or other staff of any member of the Group;
- (g) under any retention of title arrangements and rights of set-off arising in the ordinary course of the business of the relevant member of the Group with suppliers of goods to any member of the Group;
- (h) under any netting or set-off arrangement or credit support arrangements entered into under any hedging or derivative transaction and not for speculative purposes;
- (i) under any netting or set-off arrangement entered into by a member of the Group in the ordinary course of the Group's banking arrangements;
- (j) over or affecting any asset acquired by a member of the Group which is incurred under arrangements in existence at the date of acquisition, but only for a period of six months from the completion of the acquisition and provided that:
 - (i) such security was not incurred or created in contemplation of the acquisition of that asset; and
 - (ii) the principal amount secured by such security has not been increased in contemplation of, or since the date of, the acquisition of that asset;
- (k) granted in connection with the amendment, restatement and/or extension of any Existing Bank Debt (as amended, restated and/or extended where either the existing borrowers under such Existing Bank Debt remain as borrowers or [the Guarantor]* [the Issuer]** becomes the borrower under such amended and/or extended Indebtedness), subject to the new Security Interest being either:
 - (i) required or deemed beneficial in connection with any regulatory requirement applicable or which will become applicable to any member of the Group; or
 - (ii) on substantially similar terms (and over substantially similar assets) as an Existing Security Interest granted in connection with the same Existing Bank Debt (as so amended, restated and/or extended);
- (l) granted in connection with any Existing Bank Debt subject to the new Security Interest being required or deemed beneficial in connection with any regulatory requirement applicable or which will become applicable to any member of the Group;
- (m) securing Acquired Debt, provided such Security Interest(s) over such Acquired Debt is released within six months of being acquired; or
- (n) securing Indebtedness the principal amount of which (when aggregated with the principal amount of any other Indebtedness which has the benefit of such Security Interests given by any member of the Group other than any permitted under paragraphs (a) to (m) above) does not at any time exceed £20,000,000 (or its equivalent in another currency or currencies);

“Person” means any individual, corporation, company, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or other entity;

“**PRA**” means the Bank of England acting as the UK Prudential Regulation Authority through its Prudential Regulatory Committee or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer, [the Guarantor],* the Insurance Group and/or the Insurance Group Parent Entity;

“**Proceedings**” has the meaning given to it in Condition 19(b);

“**Put Option**” has the meaning given to it in the relevant Final Terms and Pricing Supplement;

“**Rate of Interest**” has the meaning given to it in the relevant Final Terms and Pricing Supplement;

“**Record Date**” has the meaning given to it in Condition 7(b);

“**Redemption Basis**” has the meaning given to it in the relevant Final Terms and Pricing Supplement;

“**Register**” has the meaning given in Condition 1;

“**Registered Notes**” has the meaning given to it in Condition 1;

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

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

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

“**Relevant Indebtedness**” means any Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other similar debt securities which for the time being are, or are intended to be or are capable of being quoted, listed or dealt in or traded on any stock exchange or, with the agreement of the Issuer [, the Guarantor or any Material Subsidiary of the Guarantor]* [or any Material Subsidiary of the Issuer]**, any over-the-counter or other securities market other than Indebtedness which has a stated maturity not exceeding one year;

“**Relevant Jurisdiction**” means [in relation to the Issuer and the Guarantor, Ireland and the United Kingdom and, in addition, in relation to the Guarantor only, the Cayman Islands]* [the Cayman Islands and the United Kingdom]** or in each case any political subdivision or any authority thereof or therein having power to tax or, in either case, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer [or Guarantor, as the case may be,]* becomes subject to tax in respect of payments made by it of principal and/or interest on the Notes [and/or any Guaranteed Amounts]* in respect thereof;

“**Relevant Rules**” means, at any time, any legislation, rules or regulations (whether having the force of law or otherwise) then applying to the Issuer, [the Guarantor],* the Insurance Group Parent Entity or the Insurance Group relating to own funds, capital resources, capital requirements, financial adequacy requirements or other prudential matters (including, but not limited to, the characteristics, features or criteria of any of the foregoing) and without limitation to the foregoing, includes (to the extent then applying as aforesaid) Solvency II and any legislation, rules or regulations of the PRA relating to such matters;

“**Scheme of Arrangement**” has the meaning ascribed to it in the definition of Newco Scheme;

“**Security Interest**” has the meaning given in Condition 3(b);

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

“**Share Scheme Vehicles**” means any entity established for the purpose of, or which becomes primarily involved in, share incentive schemes (as structured from time to time) relating to employees or other staff of any member of the Group;

“**Solvency II**” means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of regulation (including, without limitation, the Level 2 Regulations), a directive, application of relevant EIOPA guidelines or otherwise);

“**Solvency II Directive**” means Directive 2009/138/EC of the European Parliament and of the Council of the European Union of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

“**Specified Denomination**” has the meaning given to it in the relevant Final Terms and Pricing Supplement;

“**Subsidiary**” (i) for the purposes of Insurance Group and Insurance Group Parent Entity, has the meaning given to it under Section 1159 of the Companies Act 2006 (as amended from time to time) and (ii) otherwise for the purposes of these Conditions, means any corporation, association, partnership, joint venture, limited liability company or other business entity of which more than 50% of the total voting power of shares or other interests (including partnership and joint venture interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary refers to a Subsidiary of [the Guarantor]* [the Issuer]** and, for the purposes of these Conditions, Share Scheme Vehicles and Investment Vehicles shall not at any time constitute Subsidiaries of [the Guarantor]* [the Issuer]**;

“**Substituted Obligor**” has the meaning given to it in Condition 12(a);

“**successor in business**” has the meaning [, with respect to the Issuer or the Guarantor (as the case may be),]* given in the Trust Deed;

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

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

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

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

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland.

19 Governing Law and Jurisdiction

(a) *Governing law*

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

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or the Notes and accordingly any legal action or proceedings arising

out of or in connection with the Trust Deed or any Notes (“**Proceedings**”) may be brought in such courts. [Each of the Issuer and the Guarantor have]* [The Issuer has]** in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (but this is without prejudice to the rights of the Trustee or the Noteholders to commence Proceedings in any jurisdiction and/or concurrent Proceedings in one or more jurisdictions to the extent permitted by law).

[The Issuer has appointed the Guarantor, and the Guarantor has appointed][The Issuer has appointed]** its head office at Juxon House, 100 St. Paul’s Churchyard, London EC4M 8BU, United Kingdom as agent for service of process in England. In the event of such head office being unable or unwilling for any reason so to act, the Issuer will immediately appoint another person as its agent for service of process in England in respect of any Proceedings. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

TERMS AND CONDITIONS OF THE TIER 3 NOTES

The following is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Final Terms or, in the case of PD Exempt Notes, the relevant Pricing Supplement and except for the paragraphs in italics, shall be applicable to the Tier 3 Notes in definitive form (if any) issued in exchange for the Global Note(s) or Certificates representing each Series of Tier 3 Notes. The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or Pricing Supplement (as applicable) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. Accordingly, references in these terms and conditions to provisions “specified hereon” or “specified as such hereon” shall be to the provisions endorsed on the face of the relevant Note or Certificate or set out in the relevant Final Terms or Pricing Supplement (as applicable). The relevant Pricing Supplement in relation to any Tranche of PD Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of the relevant Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms or Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. These Conditions shall be applicable to those Notes which are specified to be “Tier 3 Notes” in the relevant Final Terms or Pricing Supplement. References in the Conditions to “Notes” are to the Tier 3 Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a trust deed originally dated 21 December 2016 as amended and restated on 18 April 2018 (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”)) (the “**Trust Deed**”) between PGH Capital Public Limited Company (“**PGHC**”), Phoenix Group Holdings (the “**Issuer**”) and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An agency agreement originally dated 21 December 2016 as amended and restated on 18 April 2018 (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between PGHC, the Issuer, the Trustee, Citibank, N.A., London Branch as initial issuing and paying agent, Citigroup Global Markets Deutschland AG as registrar and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and (unless otherwise set out herein or hereon) the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders and the holders of the interest coupons (the “**Coupons**”) relating to interest-bearing Notes in bearer form and, where applicable, in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same

terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State in circumstances which require the publication of a Prospectus under the Prospectus Directive (Directive 2003/71/EC, as amended), the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Fixed to Floating Rate Note, a Fixed Rate Reset Note or a Floating Rate Note or a combination of the foregoing, depending upon the Interest Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass upon registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 Transfers of Registered Notes

(a) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer (as set out in Schedule 1 of the Trust Deed) endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of an Issuer's option in respect of a holding of Registered Notes represented by a single Certificate or a partial redemption of a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) or (b) shall be available for delivery within three Business Days of receipt of the form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or relevant Transfer Agent (as applicable) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**Business Day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) *Transfer Free of Charge*

Transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges by the person submitting such Notes or Certificates that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) *Closed Periods*

No Noteholder may require the transfer of a Note (or part thereof) to be registered during the period of 15 days ending on the due date for any payment of principal or interest or during the period following delivery of a notice of a voluntary payment of Arrears of Interest in accordance with Condition 5(c) 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 Status of the Notes

(a) *Status*

The Notes and the Coupons relating to them constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders in any Issuer Winding-Up are as described in the Trust Deed, this Condition 3 and Condition 10.

(b) Issuer Winding-Up

Subject to Condition 3(c), if:

- (i) at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, (A) a solvent winding-up solely for the purpose of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution and do not provide that the Notes or any amount in respect thereof shall thereby become payable or (B) the substitution in place of the Issuer of a successor in business (as defined in the Trust Deed) of the Issuer in accordance with the provisions of Condition 12); or
- (ii) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend or other distribution of the assets of the Issuer,

(the events in Conditions 3(b)(i) and 3(b)(ii) each being an “**Issuer Winding-Up**”), the rights and claims of the Trustee (on behalf of the Noteholders and Couponholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed which shall not be subordinated), the Noteholders and the Couponholders against the Issuer in relation to the Notes, the Coupons and the Trust Deed (including, without limitation, any damages awarded for breach of any obligations under the Notes, the Coupons and the Trust Deed) will be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank:

- (A) at least *pari passu* with (i) all claims of holders of subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which have the necessary features to qualify as Tier 3 Capital as at their issue date and/or (in the case of financings entered into prior to 18 April 2018) which are, or have been, incurred by the Issuer in relation to a financing transaction where some or all of the initial proceeds from the relevant financing transaction were on-lent by the Issuer or any Subsidiary of the Issuer to any member of the Insurance Group in a form having the necessary features to qualify as Tier 3 Capital as at the date such on-loan was made and (ii) all claims of holders of other subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, *pari passu* with the Notes (and shall include, without limitation and for so long as any of the same shall remain outstanding, the Issuer’s £300,000,000 4.125 per cent. Tier 3 Notes due 2022 (ISIN XS1551285007)) (together, the “**Parity Obligations of the Issuer**”); and
- (B) in priority to (i) the claims of holders of obligations of the Issuer which have the necessary features to qualify as Tier 2 Capital as at their issue date and/or (in the case of financings entered into prior to 18 April 2018) which are, or have been, incurred by the Issuer in relation to a financing transaction where some or all of the initial proceeds from the relevant financing transaction were on-lent by the Issuer or any Subsidiary of the Issuer to any member of the Insurance Group in a form having the necessary features to qualify as Tier 2 Capital as at the date such on-loan was made (and shall include, without limitation and for so long as any of the same shall remain outstanding, the Issuer’s £428,113,000 6.625 per cent. Subordinated Notes due 2025 (ISIN XS1171593293)), (ii) the claims of holders of any undated or perpetual subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee), (iii) the claims of holders of any subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, junior to the Notes and (iv) the claims of holders of all classes of shares in the Issuer (together, the “**Junior Obligations of the Issuer**”).

(c) ***No Prejudice to Trustee Remuneration***

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

(d) ***Solvency Condition***

Other than in circumstances where an Issuer Winding-Up has occurred or is occurring (but subject to Condition 3(c)), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes, the Coupons or 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, the Coupons or the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

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

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

(e) ***Set-off, etc.***

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

4 Interest and other Calculations

(a) ***Interest on Fixed Rate Notes and Fixed to Floating Rate Notes***

Each Fixed Rate Note or Fixed to Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest to (but excluding), (i) in the case of Fixed to Floating Rate Notes, the Fixed Rate End Date specified hereon, and (ii) in the case of Fixed Rate Notes, the Maturity Date specified hereon, and such interest shall (subject to Conditions 3(d) and 5) be payable in arrear on

each Interest Payment Date specified hereon. The amount of interest payable shall be determined in accordance with Condition 4(e).

(b) Interest on Fixed Rate Reset Notes

Each Fixed Rate Reset Note bears interest on its outstanding principal amount:

- (i) from (and including) the Interest Commencement Date until (but excluding) the First Reset Note Reset Date at the Initial Rate of Interest;
- (ii) from (and including) the First Reset Note Reset Date until (but excluding) the first Anniversary Date at the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

and such interest shall (subject to Conditions 3(d) and 5) be payable, in each case, in arrear on the Interest Payment Dates specified hereon. The amount of interest payable shall be determined in accordance with Condition 4(e).

Save as otherwise provided herein, the provisions applicable to Fixed Rate Notes shall apply to Fixed Rate Reset Notes.

(c) Interest on Floating Rate Notes and Fixed to Floating Rate Notes

- (i) Interest Payment Dates

Each Floating Rate Note and each Fixed to Floating Rate Note bears interest on its outstanding principal amount from (and including), in the case of a Floating Rate Note, the Interest Commencement Date and, in the case of a Fixed to Floating Rate Note, the Fixed Rate End Date specified hereon at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest shall (subject to Conditions 3(d) and 5) be payable in arrear on each Interest Payment Date in the case of a Floating Rate Note and on each Interest Payment Date commencing after the Fixed Rate End Date specified hereon in the case of a Fixed to Floating Rate Note. The amount of interest payable shall be determined in accordance with Condition 4(e). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, “**Interest Payment Date**” shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first such Interest Payment Date, after the Interest Commencement Date, in the case of a Floating Rate Note, or after the Fixed Rate End Date, in the case of a Fixed to Floating Rate Note.

- (ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified hereon is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would

thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes and Fixed to Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes and, from and including the Fixed Rate End Date, Fixed to Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each relevant Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified as such hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise specified hereon, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR), on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the rate of interest shall be the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

Unless otherwise specified hereon, the Minimum Rate of Interest shall be deemed to be zero.

(d) *Margin, Maximum/Minimum Rates of Interest and Rounding*

- (i) If any Margin is specified hereon (either (x) generally or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(c) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest is specified hereon, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

In setting the Maximum or Minimum Rate of Interest, the Issuer shall have consideration to the limitations set out in any Relevant Rules.

- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(e) *Calculations*

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated. Where the Specified Denomination comprises more than one Calculation Amount, the amount of interest payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination specified hereon.

(f) *Linear Interpolation*

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the

Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(g) *Determination and Publication of Rates of Interest and Interest Amounts*

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or Reset Determination Date (as applicable), or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date, to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in any event no later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 4 but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Issuing and Paying Agent, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or fraud) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Issuing and Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(i) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid; and

- (ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Issuing and Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 16.

(j) **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Anniversary Date**” means the date specified as such hereon.

“**Applicable Maturity**” has the meaning given to it in Condition 4(f).

“**Benchmark Frequency**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Benchmark Gilt**” means, in respect of a Reset Period, the Benchmark Gilt specified in the applicable Final Terms or Pricing Supplement or, if no Benchmark Gilt is so specified or if the relevant Benchmark Gilt is no longer outstanding at the relevant time, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reset Reference Banks, may determine to be appropriate.

“**Benchmark Gilt Rate**” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer.

“**Broken Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Additional Business Centres specified hereon, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres.

“**Business Day Convention**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Calculation Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual - ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D₁** is greater than 29, in which case **D₂** will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30;

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30; and

- (viii) if “**Actual/Actual-ICMA**” is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such

Determination Period and (2) the number of Determination Periods normally ending in any year; and

- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“Determination Date” means the date specified as such hereon or, if none is so specified, the Interest Payment Date; and

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“dealing day” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities.

“Eurozone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“First Reset Note Reset Date” means the date specified as such hereon.

“First Reset Period” means the period from (and including) the First Reset Note Reset Date until (but excluding) the first Anniversary Date.

“First Reset Rate of Interest” means the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate plus the Reset Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the First Reset Period (such calculation to be made by the Calculation Agent)).

“Fixed Leg” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“Fixed Rate End Date” means the date specified as such hereon.

“Floating Leg” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“Floating Rate Business Day Convention” has the meaning given to it in Condition 4(c).

“Following Business Day Convention” has the meaning given to it in Condition 4(c).

“Initial Rate of Interest” means the initial rate of interest per annum specified hereon.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date, in respect of the Floating Rate Notes, and the Fixed Rate End Date, in respect of the Fixed to Floating Rate Notes, and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means, in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, Fixed Rate Reset Notes, and, prior to the Fixed Rate End Date, Fixed to Floating Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest

Accrual Period forms part; and, in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified: (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Payment Date” has the meaning given to it in Condition 4(c).

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions as amended or supplemented, as published by the International Swaps and Derivatives Association, Inc. unless otherwise specified hereon.

“ISDA Determination” has the meaning given to it in Condition 4(c).

“ISDA Rate” has the meaning given to it in Condition 4(c).

“Margin” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“Mid-Swap Quotations” means the arithmetic mean of the bid and offered rates:

- (i) if the Specified Currency is sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in sterling which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis) (or, if such 6-month LIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon;
- (ii) if the Specified Currency is euro, for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis) (or, if such 6-month EURIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon;

- (iii) if the Specified Currency is US dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in US dollars which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis) (or, if such 3-month LIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon; and
- (iv) if the Specified Currency is not sterling, euro or US dollars, for the Fixed Leg (as set out hereon) of a fixed for floating interest rate swap transaction in that Specified Currency which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a Floating Leg (as set out hereon) (or, if such Floating Leg has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time).

“**Mid-Swap Rate**” means in respect of a Reset Period, (i) the applicable semi-annual or annual (as specified hereon) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified hereon) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate.

“**Modified Following Business Day Convention**” has the meaning given to it in Condition 4(c).

“**Preceding Business Day Convention**” has the meaning given to it in Condition 4(c).

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market or in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“**Reference Rate**” means LIBOR or EURIBOR, in each case for the relevant period, as specified hereon.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“**Reset Determination Date**” means, in respect of a Reset Period, (a) each date specified as such hereon or, if none is so specified, (b) (i) if the Specified Currency is sterling, the first Business Day of such Reset Period, (ii) if the Specified Currency is euro, the day falling two TARGET Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is US dollars, the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period.

“Reset Margin” means the margin (expressed as a percentage) specified as such hereon.

In setting the Reset Margin the Issuer shall have consideration to the limitations set out in any Relevant Rules.

“Reset Note Reset Date” means every date which falls on each Anniversary Date as may be specified hereon.

“Reset Period” means the First Reset Period or a Subsequent Reset Period.

“Reset Rate” means (a) if “Mid-Swap Rate” is specified hereon, the relevant Mid-Swap Rate or (b) if “Benchmark Gilt Rate” is specified hereon, the relevant Benchmark Gilt Rate.

“Reset Reference Bank Rate” means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11:00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer.

“Reset Reference Banks” means (i) in the case of the calculation of a Reset Reference Bank Rate, five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Calculation Agent in consultation with the Issuer or (ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in consultation with the Issuer.

“Screen Page” means Reuters screen page “ICESWAP1”, “ICESWAP2”, “ICESWAP3”, “ICESWAP4”, “ICESWAP5” or “ICESWAP6” as specified hereon or such other page on Thomson Reuters as is specified hereon, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates.

“Screen Rate Determination” has the meaning given to it in Condition 4(c).

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“Subsequent Reset Period” means each successive period other than the First Reset Period from (and including) a Reset Note Reset Date to (but excluding) the next succeeding Reset Note Reset Date.

“Subsequent Reset Rate of Interest” means, in respect of any Subsequent Reset Period, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate plus the Reset Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the relevant Subsequent Reset Period (such calculation to be made by the Calculation Agent)).

“Swap Rate Period” means the period or periods specified as such hereon.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

(k) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agent(s) if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

5 Deferral of Payments

(a) Mandatory Deferral of Interest

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Regulatory Deficiency Interest Deferral Date. The Issuer shall notify the Noteholders, the Paying Agents and the Trustee of any Regulatory Deficiency Interest Deferral Date in accordance with Condition 5(d) (provided that failure to make such notification shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date) and the Issuer shall not have any obligation to make such payment on that date.

A certificate signed by two Directors of the Issuer delivered to the Trustee 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, may, in the absence of manifest error, be treated and accepted by the Trustee as correct and sufficient evidence thereof and shall if so treated and accepted be binding on the Issuer, the holders of the Notes and the Coupons relating to them and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment of interest on a Regulatory Deficiency Interest Deferral Date in accordance with this Condition 5(a) or in accordance with Condition 3(d) will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes.

(b) *Arrears of Interest*

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of (i) the obligation on the Issuer to defer pursuant to Condition 5(a) or (ii) the operation of the Solvency Condition contained in Condition 3(d), together with any other interest in respect thereof 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.

(c) *Payment of Arrears of Interest by the Issuer*

Any Arrears of Interest may (subject to Condition 3(d), the Relevant Rules and, if then required under the Relevant Rules, to satisfaction of the Regulatory Clearance Condition), be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days’ notice to such effect given by the Issuer to the Trustee, the Paying Agents and the Noteholders in accordance with Condition 16, and in any event will become due and payable by the Issuer (subject, in the case of (i) and (iii) below, to Condition 3(d) and, if then required under the Relevant Rules, to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

- (i) the next Interest Payment Date which is not a Regulatory Deficiency Interest Deferral Date (as evidenced by delivery of the certificate referred to in Condition 5(a)); or
- (ii) the date on which an Issuer Winding-Up occurs; or
- (iii) the date fixed for any redemption or purchase of Notes by the Issuer pursuant to Condition 6 (subject to any deferral of such redemption date pursuant to the Solvency Condition or Condition 6(b)) or Condition 10.

If either of the events set out in Conditions 5(c)(i) or (iii) occurs the Issuer promptly shall give notice to the Trustee, the Issuing and Paying Agent and the Noteholders in accordance with Condition 16.

(d) *Notice of Deferral*

The Issuer shall notify the Trustee, the Paying Agents and the Noteholders in writing in accordance with Condition 16 not less than five Business Days prior to an Interest Payment Date:

- (i) if that Interest Payment Date is a Regulatory Deficiency Interest Deferral Date and specifying that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs or is determined to occur (or if a determination that a Regulatory Deficiency Interest Deferral Event would occur if the relevant interest payment were to be made is made) less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 16 as soon as reasonably practicable following the occurrence of such event (and, in either case, such notice shall specify that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest were made on such Interest Payment Date); or
- (ii) if payment of any interest will not become due on such Interest Payment Date as a result of a failure to satisfy the Solvency Condition, provided that if the circumstances resulting in non-satisfaction of the Solvency Condition occur, or are determined to occur, less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 16 as soon as reasonably practicable following the occurrence of

such event (and in either case such notice shall specify that interest will not be paid as a result of non-satisfaction of the Solvency Condition).

6 Redemption, Substitution, Variation, Purchase and Options

(a) *Redemption at Maturity*

Subject to Conditions 3(d), 6(b) and 6(i), unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its principal amount), together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions and any Arrears of Interest.

(b) *Deferral of redemption date*

- (i) No Notes shall be redeemed on the Maturity Date pursuant to Condition 6(a) or redeemed prior to the Maturity Date pursuant to Condition 6(c), 6(d), 6(e) or 6(f) or purchased pursuant to Condition 6(g) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption or purchase were made on the Maturity Date or, if Condition 6(c), 6(d), 6(e) or 6(f) applies, any date specified for redemption in accordance with such Conditions or, if Condition 6(g) applies, the date of such purchase.
- (ii) If the Notes are not to be redeemed on the Maturity Date pursuant to Condition 6(a) or on any redemption date pursuant to Condition 6(c), 6(d), 6(e) or 6(f) (as applicable) as a result of circumstances where:
 - (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed on such date;
 - (B) the Solvency Condition would not be satisfied on such date or immediately after the redemption; or
 - (C) the Regulatory Clearance Condition is not satisfied (to the extent then required under the Relevant Rules) in relation to such redemption; and/or
 - (D) such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date,

the Issuer shall notify the Trustee and the Issuing and 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(c), 6(d), 6(e) or 6(f), 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).

Failure to make any such notification shall not cause the Notes to become due and payable on such date and the Issuer shall not have any obligation to redeem the Notes (or make any redemption payment in respect of the Notes) on that date.

- (iii) 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(c), 6(d), 6(e) or 6(f) as a result of Condition 6(b)(i) above or Condition 6(i) below, subject (in the case of (A) and (B) only) to Condition 3(d) and to the Regulatory Clearance Condition (if then applicable in accordance with the Relevant Rules) and to such redemption being otherwise permitted under

the Relevant Rules, such Notes shall be redeemed at their Final Redemption Amount (which, unless otherwise provided hereon, shall be their principal amount) or, as applicable, the relevant price specified in Condition 6(c), (d), (e) or (f) together with accrued and unpaid interest to (but excluding) the date fixed for redemption and any Arrears of Interest, upon the earliest of:

- (A) in the case of a failure to redeem due to the operation of Condition 6(b)(i) 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 this Condition 6(b) shall apply mutatis mutandis to determine the due date for redemption of the Notes); or
 - (B) the date falling 10 Business Days after the relevant regulatory approval for the repayment or redemption of the Notes (where such approval is required under the Relevant Rules) is received; or
 - (C) the date on which an Issuer Winding-Up occurs.
- (iv) If on any date Condition 6(b)(i) 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(c), (d), (e) or (f) as a result of the non-satisfaction of the Solvency Condition, subject to Condition 6(i), such Notes shall be redeemed at their Final Redemption Amount (which, unless otherwise provided hereon, shall be their principal amount) or, as applicable, the relevant price specified in Condition 6(c), (d), (e) or (f) together with accrued but unpaid interest and any Arrears of Interest on the tenth Business Day immediately following the day that (A) the Issuer is solvent for the purposes of Condition 3(d) and (B) that redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 3(d), provided that if on such Business Day specified for redemption a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed then the Notes shall not be redeemed on such date and Conditions 3(d) and 6(b)(iii) shall apply, mutatis mutandis, to determine the date of the redemption of the Notes.
- (v) In addition to any certificate given pursuant to Condition 3(d) in relation to the satisfaction or otherwise of the Solvency Condition, a certificate signed by two Directors of the Issuer delivered to the Trustee confirming that (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring or (C) that any circumstance described in Condition 6(b)(ii)(B) or (C) applies, may (in the absence of manifest error) be treated and accepted by the Trustee as correct and sufficient evidence thereof and shall if so treated and accepted be binding on the Noteholders, the Couponholders and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.
- (vi) In circumstances where redemption of the Notes has been deferred, the Issuer shall, as soon as reasonably practicable following its determination of the new scheduled redemption date in accordance with this Condition 6(b), give notice to the Trustee and to the Noteholders in accordance with Condition 16 of the new scheduled redemption date (but this shall be without

prejudice to further deferral of redemption on such date in the circumstances required by these Conditions).

- (vii) Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 3(d) or this Condition 6(b) will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed.

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

Unless the Issuer shall have given notice to redeem the Notes under Condition 6(d), 6(e) or 6(f) on or prior to the expiration of the notice referred to below, and if “Call Option” is specified hereon, the Issuer may at its option, subject to Conditions 3(d), 6(b) and 6(i) and having given not less than 30 nor more than 60 days’ notice (or such other notice period as may be specified hereon) to the Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 16, the Noteholders (which notice shall specify the date set for redemption and shall, subject as aforesaid, be irrevocable) redeem all (but not some only) of the Notes on any Optional Redemption Date specified hereon.

Any such redemption of Notes shall be at their Optional Redemption Amount (as may be provided for hereon) together with any accrued and unpaid interest to (but excluding) the date fixed for redemption in accordance with these Conditions and any Arrears of Interest.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(c).

(d) *Redemption, Substitution or Variation at the Option of the Issuer for Taxation Reasons*

Subject to Conditions 3(d), 6(b) and 6(i), if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the Issue Date (a) on the next Interest Payment Date, the Issuer will or would be required to pay Additional Amounts; or (b) the Issuer would not be able to claim a deduction from taxable profits for corporation tax purposes for or in respect of interest payable on the Notes (or for a material part of such interest) in the United Kingdom; or (c) the Issuer suffers or would suffer any other material adverse tax consequence in connection with the Notes in a Relevant Jurisdiction; and
- (ii) the effect of the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days’ notice to the Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 16, the Noteholders (which notice shall specify the date set for redemption and shall, subject as aforesaid, be irrevocable) either:

- (A) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Special Redemption Price (which, unless otherwise specified hereon, shall be their principal amount) together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier

than 90 days prior to the earliest date on which (x) with respect to Condition 6(d)(i)(a) above, the Issuer would be obliged to pay such additional amounts; (y) with respect to Condition 6(d)(i)(b) above, the Issuer would not be able to claim a deduction from taxable profits for corporation tax purposes for or in respect of interest payable on the Notes (or a material part of it would not be so deductible) in the United Kingdom, as referred to in Condition 6(d)(i)(b) above; or (z) with respect to Condition 6(d)(i)(c) above, the relevant adverse tax consequence would arise or be suffered, in each case were a payment in respect of the Notes then due; or

- (B) substitute at any time all (but not some only) of the Notes for, or vary at any time the terms of the Notes so that they become or remain, Qualifying Securities, and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 6(i)(i) below and in the definition of “Qualifying Securities”) agree to such substitution or variation.

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

(e) *Redemption, Substitution or Variation at the Option of the Issuer due to Capital Disqualification Event*

Subject to Conditions 3(d), 6(b) and 6(i), if a Capital Disqualification Event has occurred and is continuing, then the Issuer may at its option, having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 16, the Trustee, the Issuing and Paying Agent and the Registrar, which notice shall specify the date set for redemption and shall (subject as aforesaid) be irrevocable, either:

- (i) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Special Redemption Price (which, unless otherwise specified hereon, shall be their principal amount) together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or
- (ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Qualifying Securities and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 6(i)(i) below and in the definition of “Qualifying Securities”) agree to such substitution or variation,

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

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

(f) *Redemption, Substitution or Variation at the Option of the Issuer for Rating Reasons*

Subject to Conditions 3(d), 6(b) and 6(i), if “Ratings Methodology Call” is specified as being applicable hereon and a Ratings Methodology Event has occurred and is continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application of, any applicable methodology of the Rating Agency, a Ratings Methodology Event will occur within a period of six months, then the Issuer may at its option, having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 16, the Trustee, the Issuing and Paying Agent and the Registrar, which notice shall specify the date set for redemption and shall (subject as aforesaid) be irrevocable, either:

- (i) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Special Redemption Price (which, unless otherwise specified hereon, shall be their principal amount), together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or
- (ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Rating Agency Compliant Securities, and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 6(i)(i) below and in the definition of “Rating Agency Compliant Securities”) agree to such substitution or variation,

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

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

(g) Purchases

Subject to Conditions 3(d), 6(b) and 6(i), the Issuer and any of the Issuer’s Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in any manner and at any price.

(h) Cancellation

All Notes purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). 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 and Coupons shall be discharged.

(i) Pre-conditions to Redemption, Substitution, Variation or Purchase

- (i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 6(d), 6(e) or 6(f), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that:
 - (A) one or more of the requirements referred to in Condition 6(d)(i) will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it; or
 - (B) a Capital Disqualification Event has occurred and is continuing as at the date of the certificate; or
 - (C) a Ratings Methodology Event has occurred and is continuing as at the date of the certificate,

and, in the case of any redemption before the Applicable Date, it would have been reasonable for the Issuer to conclude, judged at the Issue Date, that the circumstance entitling the Issuer to exercise the right of redemption was not reasonably foreseeable.

In the case of (A) above, the Issuer shall also deliver to the Trustee an opinion from a nationally recognised law firm or other tax adviser in the applicable Relevant Jurisdiction experienced in such matters to the effect that the relevant requirement or circumstance referred to in Condition 6(d)(i) applies or (where applicable) will apply on the next Interest Payment Date.

The Trustee shall be entitled to accept such certificate and (in the case of (A) above) opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Issuer, the Trustee, the Noteholders, the Couponholders and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate and (in the case of (A) above) opinion without liability to any person and without any obligation to verify or investigate the accuracy thereof.

- (ii) Any purchase of Notes by the Issuer or any Subsidiary of the Issuer, any redemption of the Notes and any substitution or variation of the Notes will, if and to the extent then required by the Relevant Rules, be conditional upon:
 - (A) the Issuer and the Insurance Group being in continued compliance with the Regulatory Capital Requirements (if any) applicable to them;
 - (B) the Issuer having complied with the Regulatory Clearance Condition;
 - (C) in the case of any redemption or purchase of the Notes prior to the Capital Replacement End Date (being the Maturity Date or such other date otherwise specified hereon), the redemption or purchase being funded (to the extent then required by the PRA pursuant to the Relevant Rules) out of the proceeds of a new issuance of capital of at least the same quality as the Notes (being capital with the necessary features of Tier 3 Capital) or a better quality form of regulatory capital and being otherwise permitted under the Relevant Rules; and
 - (D) compliance with any other applicable requirements of the Relevant Rules regarding redemption, purchase, substitution or variation (as the case may be) of the Notes.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase, the prevailing Relevant Rules permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 6(i), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

The Trustee shall be entitled to accept a certificate from any two Directors of the Issuer to the Trustee confirming whether or not any such compliance is required by the Relevant Rules and, if so, confirming compliance with the relevant requirements shall if so accepted by the Trustee be conclusive and binding on the Issuer, the Noteholders, the Couponholders and all other interested parties. The Trustee shall be entitled to accept such certificate as sufficient evidence of such compliance and shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

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

- (i) Subject to Condition 6(i), the Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds as may be necessary) to give effect to the substitution or variation of the Notes for or into Qualifying Securities or Rating Agency Compliant Securities (as applicable) pursuant to this Condition 6, provided that the Trustee shall not be obliged to co-operate in any

such substitution or variation if the securities resulting from such substitution or variation, or the co-operation in such substitution or variation, imposes, in the Trustee's opinion, more onerous obligations upon it or exposes it to liabilities or reduces its protections, in each case as compared with the corresponding obligations, liabilities or, as appropriate, protections under the Notes. If the Trustee does not so co-operate as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in this Condition 6.

- (ii) The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of this Condition 6 and will not be responsible to Noteholders or the Couponholders for any loss arising from any failure by it to do so. Unless and until the Trustee has express notice pursuant to these Conditions or the Trust Deed of the occurrence of any event or circumstance to which this Condition 6 relates, it shall be entitled to assume that no such event or circumstance exists or has arisen.

(k) *Compliance with stock exchange rules*

In connection with any substitution or variation of the Notes in accordance with this Condition 6, 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.

7 Payments and Talons

(a) *Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the U.S. by transfer to an account denominated in such currency with, a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) *Registered Notes*

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register (i) where all or any of the Registered Notes are represented by a Global Certificate, at the close of the business day (being for this purpose a day on which Euroclear and/or Clearstream, Luxembourg, as applicable, are open for business) before the due date for payment thereof, and (ii) where none of the Registered Notes is represented by a Global Certificate at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency and to the holder (or to the first named of joint holders) of such Note by transfer to an account in the relevant currency maintained by the payee with a bank.

(c) *Payments in the U.S.*

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside

the U.S. with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by U.S. law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments subject to Fiscal Laws*

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

(e) *Appointment of Agents*

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer (for all purposes other than ISDA Determination for Floating Rate Notes, where the Calculation Agent will be specified in the Final Terms or Pricing Supplement, as applicable) and their respective specified offices are listed above. Subject as provided in the Agency Agreement, the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents, Calculation Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) a Paying Agent.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c).

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified hereon.

(f) *Unmatured Coupons and unexchanged Talons*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than any Fixed Rate Notes where the total value of the unmatured coupons appertaining thereto exceeds the nominal amount of such Note) such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Optional Redemption Amount or Special Redemption Price as the case may be and as may be provided for hereon, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from

the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Fixed to Floating Rate Note, a Fixed Rate Reset Note or a Floating Rate Note or (where the total value of the unmatured coupons exceeds the nominal amount of such Note) a Fixed Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) Non-Business Days

If any date for payment in respect of any Note or Coupon 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 this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Additional Financial Centres” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal, interest and Arrears of Interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by a Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts in relation to interest and Arrears of Interest (but not principal) as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** presented for payment by, or by a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day after the Relevant Date; or
- (d) **Any combination:** where such withholding or deduction arises out of any combination of paragraphs (a) to (c) above.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon 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 (or relevant Certificate) or Coupon 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 (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amount, Optional Redemption Amount or Special Redemption Price and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and any additional amounts that may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, it pursuant to the Trust Deed (“**Additional Amounts**”).

9 Prescription

Claims against the Issuer for payment in respect of principal, interest and Arrears of Interest payable on the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void

unless made within 10 years (in the case of principal) or five years (in the case of interest or Arrears of Interest) from the appropriate Relevant Date in respect of them.

10 Enforcement

(a) *Rights to institute and/or prove in a winding-up*

Unless an Issuer Winding-Up has occurred, no amount shall be due from the Issuer in those circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred in accordance with Condition 5(a), 6(b) or 6(i).

If default is made by the Issuer for a period of 14 days or more in the payment of any amount due in respect of the Notes or any of them, subject to Conditions 3(d), 5(a), 6(b) or 6(i), the Trustee at its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction) institute proceedings for the winding-up of the Issuer.

In the event of an Issuer Winding-Up (whether or not instituted by the Trustee pursuant to the foregoing), the Trustee in its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction), prove and/or claim in such Issuer Winding-Up, such claim being as contemplated in Condition 3(b) but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes, the Coupons or the Trust Deed.

(b) *Enforcement*

Without prejudice to Condition 10(a), 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 term or condition binding on the Issuer under the Trust Deed, the Notes or the Coupons (other than any payment obligation of the Issuer under or arising from the Notes, the Coupons or the Trust Deed, including any payment of damages awarded for breach of any obligations thereunder) 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(b) shall, however, prevent the Trustee, the Noteholders or the Couponholders from pursuing the remedies to which they are entitled pursuant to Condition 10(a).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 10(a) or 10(b) above against the Issuer to enforce the terms of the Trust Deed, the Notes or the Coupons or any other action under or pursuant to the Trust Deed unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one fifth in principal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre funded to its satisfaction.

(d) *Right of Noteholders and Couponholders*

No Noteholder or Couponholder 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 liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholders and the Couponholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

(e) *Extent of Noteholders and Couponholders' remedies*

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

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

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution (as defined in the Trust Deed) of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Trustee or Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting 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 or representing Noteholders whatever the principal amount of the Notes held or represented, except that, at any meeting the business of which falls within the proviso to paragraph 2 of Schedule 3 to the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. 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) and on all Couponholders.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding or consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of holders of not less than 75 per cent. in principal amount of the Notes outstanding who would have been entitled to vote upon it if it had been proposed at a meeting at which they were present shall take effect as if it were an Extraordinary Resolution. A resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or variation of the Notes pursuant to Condition 6(d), 6(e) or 6(f) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or upon the substitution of a Newco pursuant to Condition 12.

(b) *Modification of the Trust Deed*

In addition to the requirements of Conditions 6(d), 6(e), 6(f) and 12, the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed: (i) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (ii) which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error. For the avoidance of doubt, such power shall not extend to any such modification as mentioned in the proviso to paragraph 2 of Schedule 3 to the Trust Deed unless required for the substitution or variation of the Notes pursuant to Condition 6(d), 6(e), 6(f) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or upon the substitution of a Newco pursuant to Condition 12.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders and Couponholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(d) *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 11 shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(e) *Notice to the PRA*

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

12 Substitution

(a) *Discretion to agree to substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to (a) such substitution not being, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, (b) certain additional conditions set out in the Trust Deed being satisfied (including no negative rating event with respect to the Notes) and (c) such amendment of these Conditions, the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders:

- (i) to the substitution of a successor in business of the Issuer in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes; or
- (ii) to the substitution of the Insurance Group Parent Entity in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes; or
- (iii) (subject to the Notes being unconditionally and irrevocably guaranteed on a subordinated basis by the Issuer), to the substitution of a Subsidiary or parent company of the Issuer or its successor in business in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes,

any such substitute, and any substitute pursuant to a Newco Scheme as described below, being a **“Substituted Obligor”**.

Any such substitution shall be subject to the Issuer having complied with the Regulatory Clearance Condition.

(b) *Mandatory substitutions*

If a Newco Scheme occurs, the Issuer may, without the consent of the Noteholders, at its option, procure that (pursuant to the Newco Scheme or otherwise) Newco is substituted under the Notes and the Trust Deed as Issuer in place of the Issuer (or any previous substitute therefor under this Condition 12), and upon such substitution all references to “the Issuer” hereunder will be construed as references to Newco and the obligations of Phoenix Group Holdings (or the relevant previous substitute) as Issuer under the Notes and the Trust Deed will, without any further formality (including, without limitation, the execution of any agreement or deed) be terminated.

The Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds (if any) as may be necessary) to give effect to such substitution, including approving, without the need for the consent or approval of the Noteholders or Couponholders, such amendments to these Conditions, the Trust Deed and/or the Agency Agreement as the Trustee considers necessary or expedient in connection with such substitution.

Any such substitution shall be subject to the Issuer having complied with the Regulatory Clearance Condition.

(c) *Change in law*

In the case of any substitution pursuant to this Condition 12, the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed, provided that such change or the substitution would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) *Notice to Noteholders*

The Issuer will give notice of any substitution pursuant to this Condition 12 to Noteholders in accordance with Condition 16 as soon as reasonably practicable following such substitution.

13 Indemnification of the Trustee and its Contracting with the Issuer

(a) *Indemnification and protection of the Trustee*

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer, the Noteholders and the Couponholders, including (i)

provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

(b) *Trustee contracting with the Issuer*

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

(c) *Reports and certificates*

The Trust Deed provides that the Trustee may rely and act upon the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors of the Issuer), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, the Trustee or otherwise, whether or not addressed to the Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Trustee may also rely and act upon certificates and/or information addressed to it from, or delivered by, the Issuer, any Substituted Obligor or any one or more Directors of the Issuer or any Substituted Obligor or any of their respective auditors, liquidators, administrators or other insolvency officials. The Trustee will not be responsible to anyone for any liability occasioned by so relying and acting. Any such advice, opinion, information or certificate may be sent or obtained by letter, email, electronic communication or fax and the Trustee shall not be liable for acting in good faith on any advice, opinion, information or certificate purporting to be conveyed by such means even if it contains an error or is not authentic.

14 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent. as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the

Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders 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 amount and date of the first payment of interest on them and the date from which interest starts to accrue) 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 Issue Date shall be to the Issue Date of the first Tranche of Notes of any Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 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

Notices to the holders of Registered Notes shall be valid if mailed to them at their respective addresses in the Register and deemed to be given on the fourth weekday (being a day other than a Saturday or Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed. If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the relevant Notes are then admitted to trading and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

17 Contracts (Rights of Third Parties) Act 1999

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

18 Definitions

As used herein:

“**Additional Amount**” has the meaning given to it in Condition 8;

“**Additional Financial Centres**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

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

“**Applicable Date**” means either (A) in the case of a redemption pursuant to Condition 6(d)(i)(b) or 6(d)(i)(c), the first Optional Redemption Date or, if no Optional Redemption Date is specified hereon, the Maturity Date or (B) in any other case, the Capital Replacement End Date;

“**Arrears of Interest**” has the meaning given to it in Condition 5(b);

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

“**Bearer Notes**” has the meaning given to it in Condition 1;

“**Calculation Agent(s)**” has the meaning given in the preamble to the Conditions or, in the case of Condition 4(c)(iii)(A), as defined therein;

“**Call Option**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

a “**Capital Disqualification Event**” shall be deemed to have occurred if, at any time, as a result of any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so) the whole or any part of the principal amount of the Notes is no longer capable of counting as Tier 3 Capital for the purposes of (i) the Issuer on a solo, group or consolidated basis or (ii) the Insurance Group on a group or consolidated basis, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than a limitation derived from any transitional or grandfathering provisions under the Relevant Rules); “**Capital Replacement End Date**” has the meaning given to it in the Final Terms or Pricing Supplement;

“**Certificates**” has the meaning given in Condition 1;

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

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

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

“**EIOPA**” means the European Insurance and Occupational Pensions Authority;

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

“**Existing Shareholders**” has the meaning ascribed to it in the definition of Newco Scheme;

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Final Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

In setting the Final Redemption Amount the Issuer shall have consideration to the limitations set out in any Relevant Rules.

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

“Holder” has the meaning given to it in Condition 1;

“Insolvent Insurer Winding-up” means:

- (a) the winding-up of any Group Insurance Undertaking; or
- (b) the appointment of an administrator of any Group Insurance Undertaking,

in each case where the Issuer has determined, acting reasonably, that all Policyholder Claims of the policyholders or beneficiaries under contracts of insurance of that Group Insurance Undertaking may or will not be met in full;

“Insurance Group” means the Insurance Group Parent Entity and its Subsidiaries;

“Insurance Group Parent Entity” means the Issuer or any Subsidiary or parent company of the Issuer which from time to time constitutes the highest entity in the relevant insurance group for which supervision of group capital resources or solvency is required (whether or not such requirement is waived in accordance with the Relevant Rules) pursuant to the Regulatory Capital Requirements in force from time to time;

As at the date of this Prospectus, the Insurance Group Parent Entity is the Issuer.

“insurance undertaking” has the meaning given to it in the Solvency II Directive;

“Interest Basis” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“Interest Commencement Date” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“Issue Date” has the meaning given in the preamble of these Conditions;

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

“Issuer Winding-Up” has the meaning given in Condition 3(b);

“Issuing and Paying Agent” has the meaning given in the preamble to these Conditions;

“Junior Obligations of the Issuer” has the meaning given in Condition 3(b);

“Level 2 Regulations” means the Commission Delegated Regulation (EU) No. 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

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

“London Stock Exchange” means the London Stock Exchange plc;

“Maturity Date” has the meaning given to it in the relevant Final Terms or Pricing Supplement (such date being specified as being no earlier than the fifth anniversary of the Issue Date);

“Maximum Rate of Interest” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“Member State” means a member of the EEA;

“Minimum Capital Requirement” means the Minimum Capital Requirement, the minimum consolidated group Solvency Capital Requirement or other minimum capital requirements (as applicable) referred to in Solvency II or the Relevant Rules;

“Minimum Rate of Interest” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“Newco” has the meaning ascribed to it in the definition of Newco Scheme;

“Newco Scheme” means a scheme of arrangement or analogous proceeding (**“Scheme of Arrangement”**) which effects the interposition of a limited liability company (**“Newco”**) between the shareholders of the Issuer immediately prior to the Scheme of Arrangement (the **“Existing Shareholders”**) and the Issuer; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement;

“Noteholder” has the meaning given to it in Condition 1;

“Optional Redemption Amount” has the meaning given to it in the relevant Final Terms or Pricing Supplement (such Optional Redemption Amount being an amount per Note at least equal to the principal amount of the relevant Note);

“Optional Redemption Date” has the meaning given to it in the relevant Final Terms or Pricing Supplement (such Optional Redemption Date being at least five years after the Issue Date);

“Parity Creditors of the Issuer” means the creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders including holders of Parity Obligations of the Issuer;

“Parity Obligations of the Issuer” has the meaning given in Condition 3(b);

“Paying Agents” has the meaning given in the preamble to these Conditions;

“Policyholder Claims” means claims of policyholders or beneficiaries under contracts of insurance in a winding-up, liquidation or administration of a Group Insurance Undertaking to the extent that those claims relate to any debt to which the Group Insurance Undertaking is, or may become, liable to a policyholder or such a beneficiary pursuant to a contract of insurance, including all amounts to which policyholders or such beneficiaries are entitled under applicable legislation or rules relating to the winding-up or administration of insurance companies to reflect any right to receive, or expectation of receiving, benefits which such policyholders or such beneficiaries may have;

“PRA” means the Bank of England acting as the UK Prudential Regulation Authority through its Prudential Regulation Committee or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer, the Insurance Group and/or the Insurance Group Parent Entity;

“Proceedings” has the meaning given to it in Condition 19(b);

“Qualifying Securities” means securities issued by the Issuer or another entity and guaranteed by the Issuer that:

- (a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an independent investment bank of international standing or independent financial adviser of international standing, and provided that a certification to such effect (including as to the consultation with the independent investment bank or independent financial adviser and in respect of the matters specified in (b) below) signed by two Directors of the Issuer shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely absolutely without liability to any person and without any obligation to verify or investigate the accuracy thereof) prior to the issue of the relevant securities);
- (b) (subject to (a) above) shall (1) contain terms which are intended to match the then current requirements of the Relevant Rules in relation to Tier 3 Capital insofar as practicable; (2) bear the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (3) rank or, if issued by another entity, benefit from a guarantee of the Issuer which ranks, at least *pari passu* with the ranking of the Notes; (4) preserve the obligations of (including obligations arising from the exercise of any rights of) the Issuer as to redemption of the Notes, including as to the timing of, and amounts payable upon redemption of the Notes and provided that such Qualifying Securities may not be redeemed by the Issuer prior to the Maturity Date except in circumstances analogous to those referred to in Condition 6(c), 6(d), 6(e) and/or 6(f) of the Notes; (5) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Noteholders but not been paid; and (6) do not include any principal loss absorption provisions, including any provisions which require the write off or write down in whole or in part of the principal amount of such securities or the conversion of such securities in whole or in part into equity; and
- (c) are listed or admitted to trading on the London Stock Exchange’s regulated market (for the purposes of Directive 2014/65/EU) or such other regularly operating, internationally recognised stock exchange in the EEA as selected by the Issuer and approved by the Trustee;

“Rating Agency” means Fitch Ratings Limited or any affiliate of or successor thereto;

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

“Ratings Methodology Call” has the meaning given to it in Condition 6(f);

a **“Ratings Methodology Event”** will be deemed to occur if at any time there occurs a change in (or clarification to) the methodology of the Rating Agency (or in the interpretation of such methodology) as a result of which the “equity credit” (or such other nomenclature as may be used by the Rating Agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer’s senior obligations in terms of either leverage or total capital) assigned by the Rating Agency to the Notes is, as

notified by the Rating Agency to the Issuer or as published by the Rating Agency, reduced when compared to the “equity credit” assigned by the Rating Agency or its predecessor to the Notes on or around the Issue Date;

“**Record Date**” has the meaning given to it in Condition 7(b);

“**Register**” has the meaning given in Condition 1;

“**Registered Notes**” has the meaning given to it in Condition 1;

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

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

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

“**Regulatory Deficiency 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 were made on such Interest Payment Date;

“**Regulatory Deficiency Interest Deferral Event**” means:

- (a) any event (including, without limitation, any event which causes any Minimum Capital Requirement applicable to the Issuer, the Insurance Group Parent Entity or the Insurance Group to be breached and such breach is an event) which under the Relevant Rules means that the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes; or
- (b) the PRA having notified the Issuer in writing that, in circumstances in which it is permitted to do so pursuant to and in accordance with the Relevant Rules, it has determined that the Issuer must defer a payment of interest (or, if applicable, Arrears of Interest) under the Notes and the PRA not having revoked such notification;

“**Regulatory Deficiency Redemption Deferral Event**” means:

- (a) any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing or any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, the Insurance Group Parent Entity or the Insurance Group to be breached and such Insolvent Insurer Winding-up or, as the case may be, such breach is an event) which under the Relevant Rules means that the Issuer must defer or suspend redemption of the Notes; or
- (b) the PRA having notified the Issuer in writing that, in circumstances in which it is permitted to do so pursuant to and in accordance with the Relevant Rules, it has determined that the Issuer must defer making a payment of principal under the Notes and the PRA not having revoked such notification;

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

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

“Relevant Rules” means, at any time, any legislation, rules or regulations (whether having the force of law or otherwise) then applying to the Issuer, the Insurance Group Parent Entity or the Insurance Group relating to own funds, capital resources, capital requirements, financial adequacy requirements or other prudential matters (including, but not limited to, the characteristics, features or criteria of any of the foregoing and without limitation to the foregoing, includes (to the extent then applying as aforesaid) Solvency II and any legislation, rules or regulations of the PRA relating to such matters; and references in these Conditions to any matter, action or condition being required or permitted by, or in accordance with, the Relevant Rules shall be construed in the context of the Relevant Rules as they apply to Tier 3 Capital;

“Scheme of Arrangement” has the meaning ascribed to it in the definition of Newco Scheme;

“Senior Creditors of the Issuer” means policyholders of the Issuer (if any), beneficiaries under contracts of insurance of the Issuer (if any) and any other creditors of the Issuer who are unsubordinated creditors of the Issuer;

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

“Solvency II” means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of regulation (including, without limitation, the Level 2 Regulations), a directive, application of relevant EIOPA guidelines or otherwise);

“Solvency II Directive” means Directive 2009/138/EC of the European Parliament and of the Council of the European Union of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

“Solvency Capital Requirement” means the solvency capital requirement or the group solvency capital requirement referred to in Solvency II (howsoever described or defined in Solvency II) or any other solvency capital requirement, group solvency capital requirement or any other equivalent capital requirement (other than the Minimum Capital Requirement) howsoever described in the Relevant Rules;

“Solvency Condition” has the meaning given in Condition 3(d);

“Special Redemption Price” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“Specified Denomination” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“Subsidiary” has the meaning given to it under Section 1159 of the Companies Act 2006 (as amended from time to time);

“Substituted Obligor” has the meaning given to it in Condition 12(a);

“successor in business” has the meaning given in the Trust Deed;

“Tier 1 Capital” has the meaning given to it for the purposes of the Relevant Rules from time to time (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules);

“Tier 2 Capital” has the meaning given to it for the purposes of the Relevant Rules from time to time (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules);

“Tier 3 Capital” has the meaning given to it for the purposes of the Relevant Rules from time to time (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules);

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

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

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

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

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

19 Governing Law and Jurisdiction

(a) Governing law

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Coupons and/or the Talons are governed by, and shall be construed in accordance with, English law, save that the provisions of Condition 3 and Clause 7.2 of the Trust Deed relating to the status and subordination of the Notes and waiver of set-off are governed by, and shall be construed in accordance with the laws of the Cayman Islands.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or the Notes and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any Notes (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (but this is without prejudice to the rights of the Trustee or the Noteholders to commence Proceedings in any jurisdiction and/or concurrent Proceedings in one or more jurisdictions to the extent permitted by law).

The Issuer has appointed its head office at Juxon House, 100 St. Paul’s Churchyard, London EC4M 8BU, United Kingdom as agent for service of process in England. In the event of such head office being unable or unwilling for any reason so to act, the Issuer will immediately appoint another person as its agent for service of process in England in respect of any Proceedings. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

TERMS AND CONDITIONS OF THE TIER 2 NOTES

The following is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Final Terms or, in the case of PD Exempt Notes, the relevant Pricing Supplement and except for the paragraphs in italics, shall be applicable to the Tier 2 Notes in definitive form (if any) issued in exchange for the Global Note(s) or Certificates representing each Series of Tier 2 Notes. The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or Pricing Supplement (as applicable) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. Accordingly, references in these terms and conditions to provisions “specified hereon” or “specified as such hereon” shall be to the provisions endorsed on the face of the relevant Note or Certificate or set out in the relevant Final Terms or Pricing Supplement (as applicable). The relevant Pricing Supplement in relation to any Tranche of PD Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of the relevant Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms or Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. These Conditions shall be applicable to those Notes which are specified to be “Tier 2 Notes” in the relevant Final Terms or Pricing Supplement. References in the Conditions to “Notes” are to the Tier 2 Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a trust deed originally dated 21 December 2016 as amended and restated on 18 April 2018 (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”)) (the “**Trust Deed**”) between Phoenix Group Holdings (the “**Issuer**”), PGH Capital Public Limited Company (“**PGHC**”) and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An agency agreement originally dated 21 December 2016 as amended and restated on 18 April 2018 (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between the Issuer, PGHC, the Trustee, Citibank, N.A., London Branch as initial issuing and paying agent, Citigroup Global Markets Deutschland AG as registrar and the other agents named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and (unless otherwise set out herein or hereon) the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders and the holders of the interest coupons (the “**Coupons**”) relating to interest-bearing Notes in bearer form and, where applicable, in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same

terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State in circumstances which require the publication of a Prospectus under the Prospectus Directive (Directive 2003/71/EC, as amended), the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Fixed to Floating Rate Note, a Fixed Rate Reset Note or a Floating Rate Note or a combination of the foregoing, depending upon the Interest Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass upon registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 Transfers of Registered Notes

(a) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer (as set out in Schedule 1 of the Trust Deed) endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of an Issuer's option in respect of a holding of Registered Notes represented by a single Certificate or a partial redemption of a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) or (b) shall be available for delivery within three Business Days of receipt of the form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or relevant Transfer Agent (as applicable) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**Business Day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) *Transfer Free of Charge*

Transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges by the person submitting such Notes or Certificates that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) *Closed Periods*

No Noteholder may require the transfer of a Note (or part thereof) to be registered during the period of 15 days ending on the due date for any payment of principal or interest or during the period following delivery of a notice of a voluntary payment of Arrears of Interest in accordance with Condition 5(d) 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 Status of the Notes

(a) *Status*

The Notes and the Coupons relating to them constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders in any Issuer Winding-Up are as described in the Trust Deed, this Condition 3 and Condition 10.

(b) Issuer Winding-Up

Subject to Condition 3(c), if:

- (i) at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, (A) a solvent winding-up solely for the purpose of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution and do not provide that the Notes or any amount in respect thereof shall thereby become payable or (B) the substitution in place of the Issuer of a successor in business (as defined in the Trust Deed) of the Issuer in accordance with the provisions of Condition 12); or
- (ii) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend or other distribution of the assets of the Issuer,

(the events in Conditions 3(b)(i) and 3(b)(ii) each being an “**Issuer Winding-Up**”),

the rights and claims of the Trustee (on behalf of the Noteholders and Couponholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed which shall not be subordinated), the Noteholders and the Couponholders against the Issuer in relation to the Notes, the Coupons and the Trust Deed (including, without limitation, any damages awarded for breach of any obligations under the Notes, the Coupons and the Trust Deed) will be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank:

- (A) in the case of dated Notes, being Notes with a Maturity Date stated hereon
 - (x) at least *pari passu* with (i) all claims of holders of subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which have the necessary features to qualify as Tier 2 Capital as at their issue date and/or (in the case of financings entered into prior to 18 April 2018) which are, or have been, incurred by the Issuer in relation to a financing transaction where some or all of the initial proceeds from the relevant financing transaction were on-lent by the Issuer or any Subsidiary of the Issuer to any member of the Insurance Group in a form having the necessary features to qualify as Tier 2 Capital as at the date such on-loan was made and (ii) all claims of holders of other subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, *pari passu* with the Notes (and shall include, without limitation and for so long as any of the same shall remain outstanding, the Issuer’s £428,113,000 6.625 per cent. Subordinated Notes due 2025 (ISIN XS1171593293) (the “**2025 Notes**”)) (together, in the case of dated Notes, the “**Parity Obligations of the Issuer**”); and
 - (y) in priority to (i) (unless and until the Undated Notes Parity Election is made) the claims of holders of any undated or perpetual subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee), (ii) the claims of holders of any subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, junior to the Notes and (iii) the claims of holders of all classes of shares in the Issuer (together, in the case of dated Notes, the “**Junior Obligations of the Issuer**”); or
- (B) in the case of perpetual Notes, being Notes without a Maturity Date stated hereon

- (x) (unless and until an Undated Notes Parity Election is made) at least *pari passu* with all claims of holders of undated or perpetual subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) and (following the making of an Undated Notes Parity Election, if any) at least *pari passu* with (i) all claims of holders of subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which have the necessary features to qualify as Tier 2 Capital as at their issue date and/or (in the case of financings entered into prior to 18 April 2018) which are, or have been, incurred by the Issuer in relation to a financing transaction where some or all of the initial proceeds from the relevant financing transaction were on-lent by the Issuer or any Subsidiary of the Issuer to any member of the Insurance Group in a form having the necessary features to qualify as Tier 2 Capital as at the date such on-loan was made and (ii) all claims of holders of other subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, *pari passu* with the Notes (together, in the case of perpetual Notes, the “**Parity Obligations of the Issuer**”); and
 - (y) in priority to (i) the claims of holders of any subordinated obligations of the Issuer (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, junior to the Notes and (ii) the claims of holders of all classes of shares in the Issuer (together, in the case of perpetual Notes, the “**Junior Obligations of the Issuer**”).
- (C) The Issuer may elect to elevate the ranking of the perpetual Notes such that they rank *pari passu* with the claims of holders of dated subordinated Notes of the Issuer which are, or have the necessary features to qualify as, Tier 2 Capital of the Issuer as at their respective dates of issue (an “**Undated Notes Parity Election**”). Subject to satisfaction of the Regulatory Clearance Condition and without the need for consent from the Couponholders, the Noteholders or the Trustee, the Issuer may make the Undated Notes Parity Election by giving notice thereof to the Noteholders in accordance with Condition 16 and to the Trustee, the Issuing and Paying Agent and the Registrar. The Undated Notes Parity Election shall take effect on the date such notice is given to the Noteholders in accordance with this Condition 3(b).

No Undated Notes Parity Election can take effect prior to the 2025 Notes having been redeemed.

(c) No Prejudice to Trustee Remuneration

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

(d) Solvency Condition

Other than in circumstances where an Issuer Winding-Up has occurred or is occurring (but subject to Condition 3(c)), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes, the Coupons or 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, the Coupons or the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

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

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

(e) *Set-off, etc.*

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

4 Interest and other Calculations

(a) *Interest on Fixed Rate Notes and Fixed to Floating Rate Notes*

Each Fixed Rate Note or Fixed to Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest to (but excluding), (i) in the case of Fixed to Floating Rate Notes, the Fixed Rate End Date specified hereon, and (ii) in the case of Fixed Rate Notes, the Maturity Date (if applicable) specified hereon, and such interest shall (subject to Conditions 3(d) and 5) be payable in arrear on each Interest Payment Date specified hereon. The amount of interest payable shall be determined in accordance with Condition 4(e).

(b) *Interest on Fixed Rate Reset Notes*

Each Fixed Rate Reset Note bears interest on its outstanding principal amount:

- (i) from (and including) the Interest Commencement Date until (but excluding) the First Reset Note Reset Date at the Initial Rate of Interest;
- (ii) from (and including) the First Reset Note Reset Date until (but excluding) the first Anniversary Date at the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

and such interest shall (subject to Conditions 3(d) and 5) be payable, in each case, in arrear on the Interest Payment Dates specified hereon. The amount of interest payable shall be determined in accordance with Condition 4(e).

Save as otherwise provided herein, the provisions applicable to Fixed Rate Notes shall apply to Fixed Rate Reset Notes.

(c) ***Interest on Floating Rate Notes and Fixed to Floating Rate Notes***

(i) Interest Payment Dates

Each Floating Rate Note and each Fixed to Floating Rate Note bears interest on its outstanding principal amount from (and including), in the case of a Floating Rate Note, the Interest Commencement Date and, in the case of a Fixed to Floating Rate Note, the Fixed Rate End Date specified hereon at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest shall (subject to Conditions 3(d) and 5) be payable in arrear on each Interest Payment Date in the case of a Floating Rate Note and on each Interest Payment Date commencing after the Fixed Rate End Date specified hereon in the case of a Fixed to Floating Rate Note. The amount of interest payable shall be determined in accordance with Condition 4(e). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, “**Interest Payment Date**” shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first such Interest Payment Date, after the Interest Commencement Date, in the case of a Floating Rate Note, or after the Fixed Rate End Date, in the case of a Fixed to Floating Rate Note.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified hereon is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes and Fixed to Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes and, from and including the Fixed Rate End Date, Fixed to Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each relevant Interest Accrual Period

shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified as such hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise specified hereon, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR), on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest

for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the rate of interest shall be the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

Unless otherwise specified hereon, the Minimum Rate of Interest shall be deemed to be zero.

(d) *Margin, Maximum/Minimum Rates of Interest and Rounding*

- (i) If any Margin is specified hereon (either (x) generally or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 4(c) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest is specified hereon, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

In setting the Maximum or Minimum Rate of Interest, the Issuer shall have consideration to the limitations set out in any Relevant Rules.

- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(e) ***Calculations***

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated. Where the Specified Denomination comprises more than one Calculation Amount, the amount of interest payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination specified hereon.

(f) ***Linear Interpolation***

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(g) ***Determination and Publication of Rates of Interest and Interest Amounts***

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or Reset Determination Date (as applicable), or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest

Payment Date, to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in any event no later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 4 but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Issuing and Paying Agent, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or fraud) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Issuing and Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(i) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Issuing and Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 16.

(j) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Anniversary Date**” means the date specified as such hereon.

“**Applicable Maturity**” has the meaning given to it in Condition 4(f).

“**Benchmark Frequency**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Benchmark Gilt**” means, in respect of a Reset Period, the Benchmark Gilt specified in the applicable Final Terms or Pricing Supplement or, if no Benchmark Gilt is so specified or if the relevant

Benchmark Gilt is no longer outstanding at the relevant time, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reset Reference Banks, may determine to be appropriate.

“**Benchmark Gilt Rate**” means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer.

“**Broken Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Additional Business Centres specified hereon, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres.

“**Business Day Convention**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Calculation Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual - ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;

- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D₁** is greater than 29, in which case **D₂** will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30;

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30; and

- (viii) if “**Actual/Actual-ICMA**” is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“**Determination Date**” means the date specified as such hereon or, if none is so specified, the Interest Payment Date; and

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**dealing day**” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities.

“**Eurozone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**First Reset Note Reset Date**” means the date specified as such hereon.

“**First Reset Period**” means the period from (and including) the First Reset Note Reset Date until (but excluding) the first Anniversary Date.

“**First Reset Rate of Interest**” means the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate plus the Reset Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the First Reset Period (such calculation to be made by the Calculation Agent)).

“**Fixed Leg**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Fixed Rate End Date**” means the date specified as such hereon.

“**Floating Leg**” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“**Floating Rate Business Day Convention**” has the meaning given to it in Condition 4(c).

“**Following Business Day Convention**” has the meaning given to it in Condition 4(c).

“**Initial Rate of Interest**” means the initial rate of interest per annum specified hereon.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date, in respect of the Floating Rate Notes, and the Fixed Rate End Date, in respect of the Fixed to Floating Rate Notes, and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means, in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, Fixed Rate Reset Notes, and, prior to the Fixed Rate End Date, Fixed to Floating Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and, in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified: (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Payment Date**” has the meaning given to it in Condition 4(c).

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions as amended or supplemented, as published by the International Swaps and Derivatives Association, Inc. unless otherwise specified hereon.

“ISDA Determination” has the meaning given to it in Condition 4(c).

“ISDA Rate” has the meaning given to it in Condition 4(c).

“Margin” has the meaning given to it in the relevant Final Terms or Pricing Supplement.

“Mid-Swap Quotations” means the arithmetic mean of the bid and offered rates:

- (i) if the Specified Currency is sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in sterling which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis) (or, if such 6-month LIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon;
- (ii) if the Specified Currency is euro, for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in euro which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis) (or, if such 6-month EURIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon;
- (iii) if the Specified Currency is US dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in US dollars which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a floating leg based on the 3-month LIBOR rate (calculated on an Actual/360 day count basis) (or, if such 3-month LIBOR rate has ceased to be calculated or administered and if permitted by the Relevant Rules, such other rate and day count basis as is in customary market usage in such swap transactions at the relevant time), unless as otherwise specified hereon; and
- (iv) if the Specified Currency is not sterling, euro or US dollars, for the Fixed Leg (as set out hereon) of a fixed for floating interest rate swap transaction in that Specified Currency which (i) has a term commencing on the relevant Reset Note Reset Date which is equal to that of the relevant Swap Rate Period; (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the relevant swap market; and (iii) has a Floating Leg (as set out hereon) (or, if such Floating Leg has ceased to be calculated or administered and if permitted by the Relevant Rules, such other

rate and day count basis as is in customary market usage in such swap transactions at the relevant time).

“**Mid-Swap Rate**” means in respect of a Reset Period, (i) the applicable semi-annual or annual (as specified hereon) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified hereon) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate.

“**Modified Following Business Day Convention**” has the meaning given to it in Condition 4(c).

“**Preceding Business Day Convention**” has the meaning given to it in Condition 4(c).

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market or in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“**Reference Rate**” means LIBOR or EURIBOR, in each case for the relevant period, as specified hereon.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“**Reset Determination Date**” means, in respect of a Reset Period, (a) each date specified as such hereon or, if none is so specified, (b) (i) if the Specified Currency is sterling, the first Business Day of such Reset Period, (ii) if the Specified Currency is euro, the day falling two TARGET Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is US dollars, the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period.

“**Reset Margin**” means the margin (expressed as a percentage) specified as such hereon.

In setting the Reset Margin the Issuer shall have consideration to the limitations set out in any Relevant Rules.

“**Reset Note Reset Date**” means every date which falls on each Anniversary Date as may be specified hereon.

“**Reset Period**” means the First Reset Period or a Subsequent Reset Period.

“**Reset Rate**” means (a) if “Mid-Swap Rate” is specified hereon, the relevant Mid-Swap Rate or (b) if “Benchmark Gilt Rate” is specified hereon, the relevant Benchmark Gilt Rate.

“**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the Mid-Swap Quotations provided by the Reset Reference Banks to the Calculation Agent at or around 11:00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and, rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If at least four quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the

highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the rounded quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer.

“**Reset Reference Banks**” means (i) in the case of the calculation of a Reset Reference Bank Rate, five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Calculation Agent in consultation with the Issuer or (ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in consultation with the Issuer.

“**Screen Page**” means Reuters screen page “ICESWAP1”, “ICESWAP2”, “ICESWAP3”, “ICESWAP4”, “ICESWAP5” or “ICESWAP6” as specified hereon or such other page on Thomson Reuters as is specified hereon, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying comparable rates.

“**Screen Rate Determination**” has the meaning given to it in Condition 4(c).

“**Specified Currency**” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“**Subsequent Reset Period**” means each successive period other than the First Reset Period from (and including) a Reset Note Reset Date to (but excluding) the next succeeding Reset Note Reset Date.

“**Subsequent Reset Rate of Interest**” means, in respect of any Subsequent Reset Period, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate plus the Reset Margin (with such sum converted (if necessary) from a basis equivalent to the Benchmark Frequency to a basis equivalent to the frequency with which scheduled interest payments are payable on the relevant Notes during the relevant Subsequent Reset Period (such calculation to be made by the Calculation Agent)).

“**Swap Rate Period**” means the period or periods specified as such hereon.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

(k) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agent(s) if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount or to comply with any other requirement, the Issuer shall

(with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

5 Deferral of Payments

(a) *Optional Deferral of Interest*

If “Optional Interest Payment Date” is specified as being applicable hereon, the Issuer may elect in respect of any Optional Interest Payment Date by notice to the Noteholders, the Paying Agents and the Trustee pursuant to Condition 5(e) below, to defer payment of all (but not some only) of the interest accrued to that date and the Issuer shall not have any obligation to make such payment on that date.

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

(b) *Mandatory Deferral of Interest*

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Regulatory Deficiency Interest Deferral Date. The Issuer shall notify the Noteholders, the Paying Agents and the Trustee of any Regulatory Deficiency Interest Deferral Date in accordance with Condition 5(e) (provided that failure to make such notification shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date) and the Issuer shall not have any obligation to make such payment on that date.

A certificate signed by two Directors of the Issuer delivered to the Trustee 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, may, in the absence of manifest error, be treated and accepted by the Trustee as correct and sufficient evidence thereof and shall if so treated and accepted be binding on the Issuer, the holders of the Notes and the Coupons relating to them and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment of interest on a Regulatory Deficiency Interest Deferral Date in accordance with this Condition 5(b) or in accordance with Condition 3(d) will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes.

(c) *Arrears of Interest*

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of (i) the exercise by the Issuer of its discretion pursuant to Condition 5(a) (if applicable), (ii) the obligation on the Issuer to defer pursuant to Condition 5(b) or (iii) the operation of the Solvency Condition contained in Condition 3(d), together with any other interest in respect thereof 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.

(d) *Payment of Arrears of Interest by the Issuer*

Any Arrears of Interest may (subject to Condition 3(d), the Relevant Rules and, if then required under the Relevant Rules, to satisfaction of the Regulatory Clearance Condition), be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee, the Paying Agents and the Noteholders in accordance with Condition 16, and in any event will become due and payable by the Issuer (subject, in the case of (i) and (iii) below, to Condition 3(d) and, if then required under the Relevant Rules, to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

- (i) the next Interest Payment Date which is not a Regulatory Deficiency Interest Deferral Date (as evidenced by delivery of the certificate referred to in Condition 5(b)) and on which a scheduled payment of interest in respect of the Notes (or any part thereof) is made or is required to be made pursuant to these Conditions (other than a voluntary payment of Arrears of Interest); or
- (ii) the date on which an Issuer Winding-Up occurs; or
- (iii) the date fixed for any redemption or purchase of Notes by the Issuer pursuant to Condition 6 (subject to any deferral of such redemption date pursuant to the Solvency Condition or Condition 6(b)) or Condition 10.

If either of the events set out in Condition 5(d)(i) or (iii) occurs the Issuer promptly shall give notice to the Trustee, the Issuing and Paying Agent and the Noteholders in accordance with Condition 16.

(e) *Notice of Deferral*

The Issuer shall notify the Trustee, the Paying Agents and the Noteholders in writing in accordance with Condition 16 not less than five Business Days prior to an Interest Payment Date:

- (i) if that Interest Payment Date is an Optional Interest Payment Date in respect of which the Issuer elects to defer interest as provided in Condition 5(a) above;
- (ii) if that Interest Payment Date is a Regulatory Deficiency Interest Deferral Date and specifying that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs or is determined to occur (or if a determination that a Regulatory Deficiency Interest Deferral Event would occur if the relevant interest payment were to be made is made) less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 16 as soon as reasonably practicable following the occurrence of such event (and, in either case, such notice shall specify that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest were made on such Interest Payment Date); or
- (iii) if payment of any interest will not become due on such Interest Payment Date as a result of a failure to satisfy the Solvency Condition, provided that if the circumstances resulting in non-satisfaction of the Solvency Condition occur, or are determined to occur, less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 16 as soon as reasonably practicable following the occurrence of such event (and in either case such notice shall specify that interest will not be paid as a result of non-satisfaction of the Solvency Condition).

6 Redemption, Substitution, Variation, Purchase and Options

(a) *Redemption at Maturity*

Subject to Conditions 3(d), 6(b) and 6(i), unless previously redeemed or purchased and cancelled as provided below, if a Maturity Date is specified hereon, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its principal amount), together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions and any Arrears of Interest.

(b) *Deferral of redemption date*

- (i) No Notes shall be redeemed on the Maturity Date (if any) pursuant to Condition 6(a) or redeemed prior to the Maturity Date (if any) pursuant to Condition 6(c), 6(d), 6(e) or 6(f) or purchased pursuant to Condition 6(g) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption or purchase were made on, if Condition 6(a) applies, the Maturity Date or, if Condition 6(c), 6(d), 6(e) or 6(f) applies, any date specified for redemption in accordance with such Conditions or, if Condition 6(g) applies, the date of such purchase.
- (ii) If the Notes are not to be redeemed on the Maturity Date (if any) pursuant to Condition 6(a) or on any redemption date pursuant to Condition 6(c), 6(d), 6(e) or 6(f) (as applicable) as a result of circumstances where:
 - (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed on such date;
 - (B) the Solvency Condition would not be satisfied on such date or immediately after the redemption; or
 - (C) the Regulatory Clearance Condition is not satisfied (to the extent then required under the Relevant Rules) in relation to such redemption; and/or
 - (D) such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date,

the Issuer shall notify the Trustee and the Issuing and Paying Agent in writing and notify the Noteholders in accordance with Condition 16 no later than five Business Days prior to the Maturity Date (if any) or the date specified for redemption in accordance with Condition 6(c), 6(d), 6(e) or 6(f), 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).

Failure to make any such notification shall not cause the Notes to become due and payable on such date and the Issuer shall not have any obligation to redeem the Notes (or make any redemption payment in respect of the Notes) on that date.

- (iii) If redemption of the Notes does not occur on the Maturity Date (if any) or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c), 6(d), 6(e) or 6(f) as a result of Condition 6(b)(i) above or Condition 6(i) below, subject (in the case of (A) and (B) only) to Condition 3(d) and to the Regulatory Clearance Condition (if then applicable in accordance with the Relevant Rules) and to such redemption being otherwise permitted under the Relevant Rules, such Notes shall be redeemed at their Final Redemption Amount (which, unless otherwise provided hereon, shall be their principal amount) or, as applicable, the relevant

price specified in Condition 6(c), (d), (e) or (f) together with accrued and unpaid interest to (but excluding) the date fixed for redemption and any Arrears of Interest, upon the earliest of:

- (A) in the case of a failure to redeem due to the operation of Condition 6(b)(i) 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 this Condition 6(b) shall apply *mutatis mutandis* to determine the due date for redemption of the Notes); or
 - (B) the date falling 10 Business Days after the relevant regulatory approval for the repayment or redemption of the Notes (where such approval is required under the Relevant Rules) is received; or
 - (C) the date on which an Issuer Winding-Up occurs.
- (iv) If on any date Condition 6(b)(i) 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(c), (d), (e) or (f) as a result of the non-satisfaction of the Solvency Condition, subject to Condition 6(i), such Notes shall be redeemed at their Final Redemption Amount (which, unless otherwise provided hereon, shall be their principal amount) or, as applicable, the relevant price specified in Condition 6(c), (d), (e) or (f) together with accrued but unpaid interest and any Arrears of Interest on the tenth Business Day immediately following the day that (A) the Issuer is solvent for the purposes of Condition 3(d) and (B) that redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 3(d), provided that if on such Business Day specified for redemption a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed then the Notes shall not be redeemed on such date and Conditions 3(d) and 6(b)(iii) shall apply, *mutatis mutandis*, to determine the date of the redemption of the Notes.
- (v) In addition to any certificate given pursuant to Condition 3(d) in relation to the satisfaction or otherwise of the Solvency Condition, a certificate signed by two Directors of the Issuer delivered to the Trustee confirming that (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring or (C) that any circumstance described in Condition 6(b)(ii)(B) or (C) applies, may (in the absence of manifest error) be treated and accepted by the Trustee as correct and sufficient evidence thereof and shall if so treated and accepted be binding on the Noteholders, the Couponholders and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.
- (vi) In circumstances where redemption of the Notes has been deferred, the Issuer shall, as soon as reasonably practicable following its determination of the new scheduled redemption date in accordance with this Condition 6(b), give notice to the Trustee and to the Noteholders in accordance with Condition 16 of the new scheduled redemption date (but this shall be without prejudice to further deferral of redemption on such date in the circumstances required by these Conditions).

- (vii) Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 3(d) or this Condition 6(b) will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed.

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

Unless the Issuer shall have given notice to redeem the Notes under Condition 6(d), 6(e) or 6(f) on or prior to the expiration of the notice referred to below, and if “Call Option” is specified hereon, the Issuer may at its option, subject to Conditions 3(d), 6(b) and 6(i) and having given not less than 30 nor more than 60 days’ notice (or such other notice period as may be specified hereon) to the Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 16, the Noteholders (which notice shall specify the date set for redemption and shall, subject as aforesaid, be irrevocable) redeem all (but not some only) of the Notes on any Optional Redemption Date specified hereon.

Any such redemption of Notes shall be at their Optional Redemption Amount (as may be provided for hereon) together with any accrued and unpaid interest to (but excluding) the date fixed for redemption in accordance with these Conditions and any Arrears of Interest.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(c).

(d) *Redemption, Substitution or Variation at the Option of the Issuer for Taxation Reasons*

Subject to Conditions 3(d), 6(b) and 6(i), if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the Issue Date (a) on the next Interest Payment Date, the Issuer will or would be required to pay Additional Amounts; or (b) the Issuer would not be able to claim a deduction from taxable profits for corporation tax purposes for or in respect of interest payable on the Notes (or for a material part of such interest) in the United Kingdom; or (c) the Issuer suffers or would suffer any other material adverse tax consequence in connection with the Notes in a Relevant Jurisdiction; and
- (ii) the effect of the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days’ notice to the Trustee, the Issuing and Paying Agent, the Registrar and, in accordance with Condition 16, the Noteholders (which notice shall specify the date set for redemption and shall, subject as aforesaid, be irrevocable) either:

- (A) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Special Redemption Price (which, unless otherwise specified hereon, shall be their principal amount) together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (x) with respect to Condition 6(d)(i)(a) above, the Issuer would be obliged to pay such additional amounts; (y) with respect to Condition 6(d)(i)(b) above, the Issuer would not be able to claim a deduction from

taxable profits for corporation tax purposes for or in respect of interest payable on the Notes (or a material part of it would not be so deductible) in the United Kingdom, as referred to in Condition 6(d)(i)(b) above; or (z) with respect to Condition 6(d)(i)(c) above, the relevant adverse tax consequence would arise or be suffered, in each case were a payment in respect of the Notes then due; or

- (B) substitute at any time all (but not some only) of the Notes for, or vary at any time the terms of the Notes so that they become or remain, Qualifying Securities, and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 6(i)(i) below and in the definition of “Qualifying Securities”) agree to such substitution or variation.

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

(e) *Redemption, Substitution or Variation at the Option of the Issuer due to Capital Disqualification Event*

Subject to Conditions 3(d), 6(b) and 6(i), if a Capital Disqualification Event has occurred and is continuing, then the Issuer may at its option, having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 16, the Trustee, the Issuing and Paying Agent and the Registrar, which notice shall specify the date set for redemption and shall (subject as aforesaid) be irrevocable, either:

- (i) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Special Redemption Price (which, unless otherwise specified hereon, shall be their principal amount) together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or
- (ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Qualifying Securities and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 6(i)(i) below and in the definition of “Qualifying Securities”) agree to such substitution or variation,

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

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

(f) *Redemption, Substitution or Variation at the Option of the Issuer for Rating Reasons*

Subject to Conditions 3(d), 6(b) and 6(i), if “Ratings Methodology Call” is specified as being applicable hereon and a Ratings Methodology Event has occurred and is continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application of, any applicable methodology of the Rating Agency, a Ratings Methodology Event will occur within a period of six months, then the Issuer may at its option, having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 16, the Trustee, the Issuing and Paying Agent and the Registrar, which notice shall specify the date set for redemption and shall (subject as aforesaid) be irrevocable, either:

- (i) redeem all (but not some only) of the Notes, at any time or, if and for so long as the Note is a Floating Rate Note, on any Interest Payment Date, at their Special Redemption Price (which,

unless otherwise specified hereon, shall be their principal amount), together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or

- (ii) substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Rating Agency Compliant Securities, and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 6(i)(i) below and in the definition of “Rating Agency Compliant Securities”) agree to such substitution or variation,

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

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

(g) Purchases

Subject to Conditions 3(d), 6(b) and 6(i), the Issuer and any of the Issuer’s Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in any manner and at any price.

(h) Cancellation

All Notes purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). 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 and Coupons shall be discharged.

(i) Pre-conditions to Redemption, Substitution, Variation or Purchase

- (i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 6(d), 6(e) or 6(f), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that:

- (A) one or more of the requirements referred to in Condition 6(d)(i) will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it; or
- (B) a Capital Disqualification Event has occurred and is continuing as at the date of the certificate; or
- (C) a Ratings Methodology Event has occurred and is continuing as at the date of the certificate,

and, in the case of any redemption before the Applicable Date, it would have been reasonable for the Issuer to conclude, judged at the Issue Date, that the circumstance entitling the Issuer to exercise the right of redemption was not reasonably foreseeable.

In the case of (A) above, the Issuer shall also deliver to the Trustee an opinion from a nationally recognised law firm or other tax adviser in the applicable Relevant Jurisdiction experienced in

such matters to the effect that the relevant requirement or circumstance referred to in Condition 6(d)(i) applies or (where applicable) will apply on the next Interest Payment Date.

The Trustee shall be entitled to accept such certificate and (in the case of (A) above) opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Issuer, the Trustee, the Noteholders, the Couponholders and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate and (in the case of (A) above) opinion without liability to any person and without any obligation to verify or investigate the accuracy thereof.

- (ii) Any purchase of Notes by the Issuer or any Subsidiary of the Issuer, any redemption of the Notes and any substitution or variation of the Notes will, if and to the extent then required by the Relevant Rules, be conditional upon:
 - (A) the Issuer and the Insurance Group being in continued compliance with the Regulatory Capital Requirements (if any) applicable to them;
 - (B) the Issuer having complied with the Regulatory Clearance Condition;
 - (C) in the case of any redemption or purchase of the Notes prior to the Capital Replacement End Date (being the fifth anniversary of the Issue Date or such later date otherwise specified hereon), the redemption or purchase being funded (to the extent then required by the PRA pursuant to the Relevant Rules) out of the proceeds of a new issuance of capital of at least the same quality as the Notes (being capital with the necessary features of Tier 2 Capital) or a better quality form of regulatory capital and being otherwise permitted under the Relevant Rules; and
 - (D) compliance with any other applicable requirements of the Relevant Rules regarding redemption, purchase, substitution or variation (as the case may be) of the Notes.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase, the prevailing Relevant Rules permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 6(i), the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

The Trustee shall be entitled to accept a certificate from any two Directors of the Issuer to the Trustee confirming whether or not any such compliance is required by the Relevant Rules and, if so, confirming compliance with the relevant requirements shall if so accepted by the Trustee be conclusive and binding on the Issuer, the Noteholders, the Couponholders and all other interested parties. The Trustee shall be entitled to accept such certificate as sufficient evidence of such compliance and shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

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

- (i) Subject to Condition 6(i), the Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds as may be necessary) to give effect to the substitution or variation of the Notes for or into Qualifying Securities or Rating Agency Compliant Securities (as applicable) pursuant to this Condition 6, provided that the Trustee shall not be obliged to co-operate in any such substitution or variation if the securities resulting from such substitution or variation, or the co-operation in such substitution or variation, imposes, in the Trustee's opinion, more

onerous obligations upon it or exposes it to liabilities or reduces its protections, in each case as compared with the corresponding obligations, liabilities or, as appropriate, protections under the Notes. If the Trustee does not so co-operate as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in this Condition 6.

- (ii) The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of this Condition 6 and will not be responsible to Noteholders or the Couponholders for any loss arising from any failure by it to do so. Unless and until the Trustee has express notice pursuant to these Conditions or the Trust Deed of the occurrence of any event or circumstance to which this Condition 6 relates, it shall be entitled to assume that no such event or circumstance exists or has arisen.

(k) Compliance with stock exchange rules

In connection with any substitution or variation of the Notes in accordance with this Condition 6, 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.

7 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the U.S. by transfer to an account denominated in such currency with, a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) Registered Notes

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register (i) where all or any of the Registered Notes are represented by a Global Certificate, at the close of the business day (being for this purpose a day on which Euroclear and/or Clearstream, Luxembourg, as applicable, are open for business) before the due date for payment thereof, and (ii) where none of the Registered Notes is represented by a Global Certificate at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency and to the holder (or to the first named of joint holders) of such Note by transfer to an account in the relevant currency maintained by the payee with a bank.

(c) Payments in the U.S.

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the U.S. with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such

amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by U.S. law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments subject to Fiscal Laws*

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

(e) *Appointment of Agents*

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer (for all purposes other than ISDA Determination for Floating Rate Notes, where the Calculation Agent will be specified in the Final Terms or Pricing Supplement, as applicable) and their respective specified offices are listed above. Subject as provided in the Agency Agreement, the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents, Calculation Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, and (v) a Paying Agent.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c).

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified hereon.

(f) *Unmatured Coupons and unexchanged Talons*

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than any Fixed Rate Notes where the total value of the unexpired coupons appertaining thereto exceeds the nominal amount of such Note) such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Optional Redemption Amount or Special Redemption Price as the case may be and as may be provided for hereon, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Fixed to Floating Rate Note, a Fixed Rate Reset Note or a Floating Rate Note or (where the total value of the unmatured coupons exceeds the nominal amount of such Note) a Fixed Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date (if one is specified hereon) shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) Non-Business Days

If any date for payment in respect of any Note or Coupon 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 this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Additional Financial Centres” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal, interest and Arrears of Interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by a Relevant Jurisdiction, unless such withholding or deduction is required by law. In

that event, the Issuer shall pay such additional amounts in relation to interest and Arrears of Interest (but not principal) as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** presented for payment by, or by a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day after the Relevant Date; or
- (d) **Any combination:** where such withholding or deduction arises out of any combination of paragraphs (a) to (c) above.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon 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 (or relevant Certificate) or Coupon 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 (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amount, Optional Redemption Amount or Special Redemption Price and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and any additional amounts that may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, it pursuant to the Trust Deed (“**Additional Amounts**”).

9 Prescription

Claims against the Issuer for payment in respect of principal, interest and Arrears of Interest payable on the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest or Arrears of Interest) from the appropriate Relevant Date in respect of them.

10 Enforcement

(a) *Rights to institute and/or prove in a winding-up*

Unless an Issuer Winding-Up has occurred, no amount shall be due from the Issuer in those circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred in accordance with Condition 5(a) (if applicable), 5(b), 6(b) or 6(i).

If default is made by the Issuer for a period of 14 days or more in the payment of any amount due in respect of the Notes or any of them, subject to Conditions 3(d), 5(a) (if applicable), 5(b), 6(b) or 6(i), the Trustee at its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction) institute proceedings for the winding-up of the Issuer.

In the event of an Issuer Winding-Up (whether or not instituted by the Trustee pursuant to the foregoing), the Trustee in its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction), prove and/or claim in such Issuer Winding-Up, such claim being as contemplated in Condition 3(b) but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes, the Coupons or the Trust Deed.

(b) *Enforcement*

Without prejudice to Condition 10(a), 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 term or condition binding on the Issuer under the Trust Deed, the Notes or the Coupons (other than any payment obligation of the Issuer under or arising from the Notes, the Coupons or the Trust Deed, including any payment of damages awarded for breach of any obligations thereunder) 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(b) shall, however, prevent the Trustee, the Noteholders or the Couponholders from pursuing the remedies to which they are entitled pursuant to Condition 10(a).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 10(a) or 10(b) above against the Issuer to enforce the terms of the Trust Deed, the Notes or the Coupons or any other action under or pursuant to the Trust Deed unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one fifth in principal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre funded to its satisfaction.

(d) *Right of Noteholders and Couponholders*

No Noteholder or Couponholder 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 liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholders and the Couponholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

(e) ***Extent of Noteholders and Couponholders' remedies***

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

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

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) ***Meetings of Noteholders***

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution (as defined in the Trust Deed) of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Trustee or Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting 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 or representing Noteholders whatever the principal amount of the Notes held or represented, except that, at any meeting the business of which falls within the proviso to paragraph 2 of Schedule 3 to the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. 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) and on all Couponholders.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding or consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of holders of not less than 75 per cent. in principal amount of the Notes outstanding who would have been entitled to vote upon it if it had been proposed at a meeting at which they were present shall take effect as if it were an Extraordinary Resolution. A resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or variation of the Notes pursuant to Condition 6(d), 6(e) or 6(f) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or upon the substitution of a Newco pursuant to Condition 12.

(b) ***Modification of the Trust Deed***

In addition to the requirements of Conditions 6(d), 6(e), 6(f) and 12, the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed: (i) which is not, in the opinion of the Trustee, materially prejudicial to the interests of

the Noteholders or (ii) which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error. For the avoidance of doubt, such power shall not extend to any such modification as mentioned in the proviso to paragraph 2 of Schedule 3 to the Trust Deed unless required for the substitution or variation of the Notes pursuant to Condition 6(d), 6(e), 6(f) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or upon the substitution of a Newco pursuant to Condition 12.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders and Couponholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(d) *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 11 shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(e) *Notice to the PRA*

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

12 Substitution

(a) *Discretion to agree to substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to (a) such substitution not being, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, (b) certain additional conditions set out in the Trust Deed being satisfied (including no negative rating event with respect to the Notes) and (c) such amendment of these Conditions, the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders:

- (i) to the substitution of a successor in business of the Issuer in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes; or
- (ii) to the substitution of the Insurance Group Parent Entity in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes; or

(iii) (subject to the Notes being unconditionally and irrevocably guaranteed on a subordinated basis by the Issuer), to the substitution of a Subsidiary or parent company of the Issuer or its successor in business in place of the Issuer or any previous substitute under this Condition 12 as principal debtor under the Trust Deed and the Notes,

any such substitute, and any substitute pursuant to a Newco Scheme as described below, being a “**Substituted Obligor**”.

Any such substitution shall be subject to the Issuer having complied with the Regulatory Clearance Condition.

(b) *Mandatory substitutions*

If a Newco Scheme occurs, the Issuer may, without the consent of the Noteholders, at its option, procure that (pursuant to the Newco Scheme or otherwise) Newco is substituted under the Notes and the Trust Deed as Issuer in place of the Issuer (or any previous substitute therefor under this Condition 12), and upon such substitution all references to “the Issuer” hereunder will be construed as references to Newco and the obligations of Phoenix Group Holdings (or the relevant previous substitute) as Issuer under the Notes and the Trust Deed will, without any further formality (including, without limitation, the execution of any agreement or deed) be terminated.

The Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds (if any) as may be necessary) to give effect to such substitution, including approving, without the need for the consent or approval of the Noteholders or Couponholders, such amendments to these Conditions, the Trust Deed and/or the Agency Agreement as the Trustee considers necessary or expedient in connection with such substitution.

Any such substitution shall be subject to the Issuer having complied with the Regulatory Clearance Condition.

(c) *Change in law*

In the case of any substitution pursuant to this Condition 12, the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed, provided that such change or the substitution would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) *Notice to Noteholders*

The Issuer will give notice of any substitution pursuant to this Condition 12 to Noteholders in accordance with Condition 16 as soon as reasonably practicable following such substitution.

13 Indemnification of the Trustee and its Contracting with the Issuer

(a) *Indemnification and protection of the Trustee*

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer, the Noteholders and the Couponholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the

Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

(b) *Trustee contracting with the Issuer*

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

(c) *Reports and certificates*

The Trust Deed provides that the Trustee may rely and act upon the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors of the Issuer), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, the Trustee or otherwise, whether or not addressed to the Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Trustee may also rely and act upon certificates and/or information addressed to it from, or delivered by, the Issuer, any Substituted Obligor or any one or more Directors of the Issuer or any Substituted Obligor or any of their respective auditors, liquidators, administrators or other insolvency officials. The Trustee will not be responsible to anyone for any liability occasioned by so relying and acting. Any such advice, opinion, information or certificate may be sent or obtained by letter, email, electronic communication or fax and the Trustee shall not be liable for acting in good faith on any advice, opinion, information or certificate purporting to be conveyed by such means even if it contains an error or is not authentic.

14 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent. as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders 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 amount and date of the first payment of interest on them and the date from which interest starts to accrue) 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 Issue Date shall be to the Issue Date of the first Tranche of Notes of any Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 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

Notices to the holders of Registered Notes shall be valid if mailed to them at their respective addresses in the Register and deemed to be given on the fourth weekday (being a day other than a Saturday or Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed. If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the relevant Notes are then admitted to trading and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

17 Contracts (Rights of Third Parties) Act 1999

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

18 Definitions

As used herein:

“**2025 Notes**” has the meaning given to it in Condition 3(b);

“**Additional Amount**” has the meaning given to it in Condition 8;

“**Additional Financial Centres**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

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

“**Applicable Date**” means either (A) in the case of a redemption pursuant to Condition 6(d)(i)(b) or 6(d)(i)(c), the first Optional Redemption Date or, if no Optional Redemption Date is specified hereon, the Maturity Date or (B) in any other case, the Capital Replacement End Date;

“**Arrears of Interest**” has the meaning given to it in Condition 5(c);

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

“**Bearer Notes**” has the meaning given to it in Condition 1;

“**Calculation Agent(s)**” has the meaning given in the preamble to the Conditions or, in the case of Condition 4(c)(iii)(A), as defined therein;

“**Call Option**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

a “**Capital Disqualification Event**” shall be deemed to have occurred if, at any time, as a result of any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so) the whole or any part of the principal amount of the Notes is no longer capable of counting as Tier 2 Capital for the purposes of (i) the Issuer on a solo, group or consolidated basis or (ii) the Insurance Group on a group or consolidated basis, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than a limitation derived from any transitional or grandfathering provisions under the Relevant Rules)

“**Capital Replacement End Date**” has the meaning given to it in the Final Terms or Pricing Supplement;

“**Certificates**” has the meaning given in Condition 1;

“**Compulsory Interest Payment Date**” means any Interest Payment Date (i) in respect of which during the immediately preceding six month period a Compulsory Interest Payment Event has occurred; (ii) on which the relevant interest payment can be made in compliance with the Solvency Condition; and (iii) which is not a Regulatory Deficiency Interest Deferral Date;

“**Compulsory Interest Payment Event**” means:

- (a) any declaration, payment or making of a dividend or distribution by the Issuer to its ordinary shareholders; or
- (b) any declaration, payment or making of a dividend, distribution or coupon on any other Junior Obligations of the Issuer, except where such dividend, distribution or coupon was required to be declared, paid or made under, or in accordance with, their terms; or
- (c) any repurchase by the Issuer of any of its ordinary shares for cash, provided such repurchase is not made in the ordinary course of business of the Issuer in connection with any share option scheme or share ownership scheme for management or employees of the Issuer or management or employees of affiliates of the Issuer; or

(d) any redemption or purchase by the Issuer or any Subsidiary of the Issuer of any other Junior Obligations of the Issuer for cash, except (i) a redemption required to be effected under, or in accordance with, their terms and/or (ii) any purchase by a Subsidiary of the Issuer where neither the Issuer nor the Insurance Group Parent Entity has operational control over the investment activities thereof and where such purchase is not made at the direction of, or for the benefit of, the Issuer;

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

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

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

“**EIOPA**” means the European Insurance and Occupational Pensions Authority;

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

“**Existing Shareholders**” has the meaning ascribed to it in the definition of Newco Scheme;

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Final Redemption Amount**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

In setting the Final Redemption Amount the Issuer shall have consideration to the limitations set out in any Relevant Rules.

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

“**Holder**” has the meaning given to it in Condition 1;

“**Insolvent Insurer Winding-up**” means:

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

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

in each case where the Issuer has determined, acting reasonably, that all Policyholder Claims of the policyholders or beneficiaries under contracts of insurance of that Group Insurance Undertaking may or will not be met in full;

“**Insurance Group**” means the Insurance Group Parent Entity and its Subsidiaries;

“**Insurance Group Parent Entity**” means the Issuer or any Subsidiary or parent company of the Issuer which from time to time constitutes the highest entity in the relevant insurance group for which supervision of group capital resources or solvency is required (whether or not such requirement is waived in accordance with the Relevant Rules) pursuant to the Regulatory Capital Requirements in force from time to time;

As at the date of this Prospectus, the Insurance Group Parent Entity is the Issuer.

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

“**Interest Basis**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Interest Commencement Date**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Issue Date**” has the meaning given in the preamble of these Conditions;

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

“**Issuer Winding-Up**” has the meaning given in Condition 3(b);

“**Issuing and Paying Agent**” has the meaning given in the preamble to these Conditions;

“**Junior Obligations of the Issuer**” has the applicable meaning given in Condition 3(b);

“**Level 2 Regulations**” means the Commission Delegated Regulation (EU) No. 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

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

“**London Stock Exchange**” means the London Stock Exchange plc;

“**Maturity Date**” has the meaning given to it in the relevant Final Terms or Pricing Supplement (such date being specified as being no earlier than the tenth anniversary of the Issue Date);

“**Maximum Rate of Interest**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Member State**” means a member of the EEA;

“**Minimum Capital Requirement**” means the Minimum Capital Requirement, the minimum consolidated group Solvency Capital Requirement or other minimum capital requirements (as applicable) referred to in Solvency II or the Relevant Rules;

“**Minimum Rate of Interest**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Newco**” has the meaning ascribed to it in the definition of Newco Scheme;

“**Newco Scheme**” means a scheme of arrangement or analogous proceeding (“**Scheme of Arrangement**”) which effects the interposition of a limited liability company (“**Newco**”) between the shareholders of the Issuer immediately prior to the Scheme of Arrangement (the “**Existing Shareholders**”) and the Issuer; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement;

“**Noteholder**” has the meaning given to it in Condition 1;

“**Optional Interest Payment Date**” means any Interest Payment Date other than a Compulsory Interest Payment Date or a Regulatory Deficiency Interest Deferral Date;

“Optional Redemption Amount” has the meaning given to it in the relevant Final Terms or Pricing Supplement (such Optional Redemption Amount being an amount per Note at least equal to the principal amount of the relevant Note);

“Optional Redemption Date” has the meaning given to it in the relevant Final Terms or Pricing Supplement (such Optional Redemption Date being at least five years after the Issue Date);

“Parity Creditors of the Issuer” means the creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders including holders of Parity Obligations of the Issuer;

“Parity Obligations of the Issuer” has the meaning given in Condition 3(b);

“Paying Agents” has the meaning given in the preamble to these Conditions;

“Policyholder Claims” means claims of policyholders or beneficiaries under contracts of insurance in a winding-up, liquidation or administration of a Group Insurance Undertaking to the extent that those claims relate to any debt to which the Group Insurance Undertaking is, or may become, liable to a policyholder or such a beneficiary pursuant to a contract of insurance, including all amounts to which policyholders or such beneficiaries are entitled under applicable legislation or rules relating to the winding-up or administration of insurance companies to reflect any right to receive, or expectation of receiving, benefits which such policyholders or such beneficiaries may have;

“PRA” means the Bank of England acting as the UK Prudential Regulation Authority through its Prudential Regulation Committee or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer, the Insurance Group and/or the Insurance Group Parent Entity;

“Proceedings” has the meaning given to it in Condition 19(b);

“Qualifying Securities” means securities issued by the Issuer or another entity and guaranteed by the Issuer that:

- (a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an independent investment bank of international standing or independent financial adviser of international standing, and provided that a certification to such effect (including as to the consultation with the independent investment bank or independent financial adviser and in respect of the matters specified in (b) below) signed by two Directors of the Issuer shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely absolutely without liability to any person and without any obligation to verify or investigate the accuracy thereof) prior to the issue of the relevant securities);
- (b) (subject to (a) above) shall (1) contain terms which are intended to match the then current requirements of the Relevant Rules in relation to Tier 2 Capital insofar as practicable; (2) bear the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (3) rank or, if issued by another entity, benefit from a guarantee of the Issuer which ranks, at least *pari passu* with the ranking of the Notes; (4) preserve the obligations of (including obligations arising from the exercise of any rights of) the Issuer as to redemption of the Notes, including as to the timing of, and amounts payable upon redemption of the Notes and provided that such Qualifying Securities may not be redeemed by the Issuer prior to the Maturity Date except in circumstances analogous to those referred to in Condition 6(c), 6(d), 6(e) and/or 6(f) of the Notes; (5) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Noteholders but not been paid; and (6) do not include any principal loss absorption provisions, including any provisions which require the write off or write down in whole or in part of the principal amount of such securities or the conversion of such securities in whole or in part into equity; and

- (c) are listed or admitted to trading on the London Stock Exchange's regulated market (for the purposes of Directive 2014/65/EU) or such other regularly operating, internationally recognised stock exchange in the EEA as selected by the Issuer and approved by the Trustee;

"Rating Agency" means Fitch Ratings Limited or any affiliate of or successor thereto;

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

"Ratings Methodology Call" has the meaning given to it in Condition 6(f);

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

"Record Date" has the meaning given to it in Condition 7(b);

"Register" has the meaning given in Condition 1;

"Registered Notes" has the meaning given to it in Condition 1;

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

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

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

"Regulatory Deficiency 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 were made on such Interest Payment Date;

"Regulatory Deficiency Interest Deferral Event" means:

- (a) any event (including, without limitation, any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, the Insurance Group Parent Entity or the Insurance Group to be breached and such breach is an event) which under the Relevant Rules means

that the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes; or

- (b) the PRA having notified the Issuer in writing that, in circumstances in which it is permitted to do so pursuant to and in accordance with the Relevant Rules, it has determined that the Issuer must defer a payment of interest (or, if applicable, Arrears of Interest) under the Notes and the PRA not having revoked such notification;

“Regulatory Deficiency Redemption Deferral Event” means:

- (a) any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing or any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, the Insurance Group Parent Entity or the Insurance Group to be breached and such Insolvent Insurer Winding-up or, as the case may be, such breach is an event) which under the Relevant Rules means that the Issuer must defer or suspend redemption of the Notes; or
- (b) the PRA having notified the Issuer in writing that, in circumstances in which it is permitted to do so pursuant to and in accordance with the Relevant Rules, it has determined that the Issuer must defer making a payment of principal under the Notes and the PRA not having revoked such notification;

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

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

“Relevant Rules” means, at any time, any legislation, rules or regulations (whether having the force of law or otherwise) then applying to the Issuer, the Insurance Group Parent Entity or the Insurance Group relating to own funds, capital resources, capital requirements, financial adequacy requirements or other prudential matters (including, but not limited to, the characteristics, features or criteria of any of the foregoing) and without limitation to the foregoing, includes (to the extent then applying as aforesaid) Solvency II and any legislation, rules or regulations of the PRA relating to such matters; and references in these Conditions to any matter, action or condition being required or permitted by, or in accordance with, the Relevant Rules shall be construed in the context of the Relevant Rules as they apply to Tier 2 Capital;

“Scheme of Arrangement” has the meaning ascribed to it in the definition of Newco Scheme;

“Senior Creditors of the Issuer” means:

- (a) in the case of dated Notes, being Notes with a Maturity Date stated hereon
 - (i) policyholders of the Issuer (if any), beneficiaries under contracts of insurance of the Issuer (if any) and any other creditors of the Issuer who are unsubordinated creditors of the Issuer; and
 - (ii) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer but not further or otherwise (other than those whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, any claims of the Noteholders under the Notes and the Trust Deed including (without limitation) holders of Parity Obligations of the Issuer and/or Junior Obligations of the Issuer); and
- (b) in the case of perpetual Notes, being Notes without a Maturity Date stated hereon
 - (i) policyholders of the Issuer (if any), beneficiaries under contracts of insurance of the Issuer (if any) and any other creditors of the Issuer who are unsubordinated creditors of the Issuer;

- (ii) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer but not further or otherwise (other than those whose claims otherwise rank, or are expressed to rank, pari passu with, or junior to, any claims of the Noteholders under the Notes and the Trust Deed including (without limitation) holders of Parity Obligations of the Issuer and/or Junior Obligations of the Issuer); and
- (iii) (unless and until the Undated Notes Parity Election is made) holders of dated subordinated obligations of the Issuer (including, without limitation and for so long as any of the same shall remain outstanding, the Issuer's obligations pursuant to its 2025 Notes);

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

“**Solvency II**” means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of regulation (including, without limitation, the Level 2 Regulations), a directive, application of relevant EIOPA guidelines or otherwise);

“**Solvency II Directive**” means Directive 2009/138/EC of the European Parliament and of the Council of the European Union of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (as amended);

“**Solvency Capital Requirement**” means the solvency capital requirement or the group solvency capital requirement referred to in Solvency II (howsoever described or defined in Solvency II) or any other solvency capital requirement, group solvency capital requirement or any other equivalent capital requirement (other than the Minimum Capital Requirement) howsoever described in the Relevant Rules;

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

“**Special Redemption Price**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Specified Denomination**” has the meaning given to it in the relevant Final Terms or Pricing Supplement;

“**Subsidiary**” has the meaning given to it under Section 1159 of the Companies Act 2006 (as amended from time to time);

“**Substituted Obligor**” has the meaning given to it in Condition 12(a);

“**successor in business**” has the meaning given in the Trust Deed;

“**Tier 1 Capital**” has the meaning given to it for the purposes of the Relevant Rules from time to time (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules);

“**Tier 2 Capital**” has the meaning given to it for the purposes of the Relevant Rules from time to time (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules);

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

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

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

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

“**Undated Notes Parity Election**” has the meaning given to it in Condition 3(b); and

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

19 Governing Law and Jurisdiction

(a) Governing law

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Coupons and/or the Talons are governed by, and shall be construed in accordance with, English law, save that the provisions of Condition 3 and Clause 7.1 of the Trust Deed relating to the status and subordination of the Notes and waiver of set-off are governed by, and shall be construed in accordance with the laws of the Cayman Islands.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or the Notes and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any Notes (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (but this is without prejudice to the rights of the Trustee or the Noteholders to commence Proceedings in any jurisdiction and/or concurrent Proceedings in one or more jurisdictions to the extent permitted by law).

The Issuer has appointed its head office at Juxon House, 100 St. Paul’s Churchyard, London EC4M 8BU, United Kingdom as agent for service of process in England. In the event of such head office being unable or unwilling for any reason so to act, the Issuer will immediately appoint another person as its agent for service of process in England in respect of any Proceedings. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

If the Global Notes in respect of any series of Senior Notes in bearer form are stated in the applicable Final Terms or Pricing Supplement to be issued in NGN form, the Global Notes will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. If the Global Certificates in respect of any series of Senior Notes in registered form are stated in the applicable Final Terms or Pricing Supplement to be issued in NSS form, the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Where the Global Notes issued in respect of any Tranche are in NGN form or are held under the NSS, Euroclear and Clearstream, Luxembourg will be notified whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Depositing the Global Notes or Global Certificates (as the case may be) with the Common Safekeeper does not necessarily mean that the relevant Senior Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depository (other than Global Certificates in NSS form, which shall be delivered to a Common Safekeeper).

If the Global Note is in CGN form, upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or registration of Registered Notes in the name of any common nominee for Euroclear and Clearstream, Luxembourg and delivery of the relevant Global Certificate to the Common Depository, 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. If the Global Note is in NGN form, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms or Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

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

or Global Certificate and such obligations of the relevant Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (a) if the relevant Final Terms or Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Subscription and Sale*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (b) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

If the temporary Global Note is exchangeable for Definitive Notes at the option of the holder and the relevant clearing system(s) so permit, the Notes shall be tradeable only in amounts of at least the Specified Denomination specified in the Final Terms or Pricing Supplement (such as €100,000 (or its equivalent in another currency)) plus one or more higher integral multiples of another smaller amount (such as €1,000 (or its equivalent in another currency)).

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. Noteholders who hold Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Notes such that their holding is an integral multiple of a Specified Denomination.

Permanent Global Certificates

If the Final Terms or Pricing Supplement state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(a) of the relevant Notes may only be made in part:

- (a) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (b) with the consent of the relevant Issuer,

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

Delivery of Notes

If the Global Note is in CGN form, on or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be, or if the Global Note is in NGN form, the relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that has not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, 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:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Conditions 7(f)(v) and 7(g) in the case of the relevant Notes will apply to the Definitive Notes only. If the Global Note is in NGN form, the relevant Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the

nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the relevant Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "**Business Day**" set out in Condition 7(h) of the relevant Notes.

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

All payments of interest in respect of a series of Notes represented by a Global Note or Global Certificate shall be calculated in respect of the total aggregate amount of the Notes represented by the relevant Global Note or Global Certificate.

Prescription

Claims against the relevant Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 of the relevant Notes).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

Purchase

Notes represented by a permanent Global Note may only be purchased by the relevant Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest (if any) thereon.

Issuer's Option

Any option of the relevant Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the relevant Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and, accordingly, no drawing of Notes shall be required. In the event that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Senior Notes while such Senior Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Senior Notes in respect of which the option has been exercised, and stating the nominal amount of Senior Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is in NGN form, the relevant Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

NGN nominal amount

Where the Global Note is in NGN form, the relevant Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Senior Notes represented by such Global Note shall be adjusted accordingly.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of, any nominee or any common nominee, as the case may be, 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 such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate and, in the case of Registered Notes only, the Trustee may have regard to any other letter of confirmation, form of record, information and/or certification as the Trustee shall, in its absolute discretion, think fit as evidence that at any particular time or throughout any particular period any particular person should be regarded as having an interest in a particular nominal amount of Registered Notes and if the Trustee does so rely on such evidence, such letter of confirmation, form of record, information and/or certification shall be conclusive and binding on all concerned.

Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (a) approval of a resolution proposed by the relevant Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Trust Deed shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum 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 and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the relevant Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the relevant Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system with entitlements to such Global Note or Global Certificate and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the relevant Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. 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 relevant Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of the Notes may be used to fund part of the consideration for the Acquisition but may also be used to fund general commercial activities of the Group.

INFORMATION ON THE GROUP

Business overview

The Group specialises in the management and acquisition of closed life and pension funds and operates primarily in the United Kingdom. As at 31 December 2017, the Group had more than 5.6 million policyholders, £74 billion of assets under management and Solvency II Own Funds of £6.6 billion. Measured by number of policyholders, the Group is the United Kingdom's largest specialist consolidator of closed life insurance funds. The Group is primarily focused on the efficient management of in-force policies and currently writes limited new policies (as increments to existing policies, annuities for current policyholders when their policies mature and a limited set of direct protection policies).

The Group has three operating life insurance companies which hold policyholder assets: PLL, PLAL, and ALAC. The Group's two principal management service companies, Pearl Group Services Limited ("PGS") and Pearl Group Management Services Limited ("PGMS"), aim to provide all administrative services required by the Phoenix Life Companies (or manage the provision of such services through outsourcing arrangements), including policy administration, information technology, finance and facility management services.

Following Completion, the Enlarged Group will have more than 10.4 million policyholders, £240 billion of assets under management and Solvency II Own Funds of £10.2 billion as at 31 December 2017. Following Completion, the Enlarged Group will have six operating life insurance companies which hold policyholders assets: PLL, PLAL, ALAC, SLAL, SLPF and SLIDAC. For further details on the business of Standard Life Assurance, see "*Information on Standard Life Assurance – Business Overview*" and for further details on the proposed strategic and financial benefits of the Acquisition, see "*The Acquisition*".

History

Phoenix Group Holdings, previously named Liberty International Acquisition Company, then Liberty Acquisition Holdings (International) Company and then Pearl Group, was incorporated on 2 January 2008 under the laws of the Cayman Islands as an exempted company with limited liability, under registration number 202172. PGH was originally formed as a non-operating special purpose acquisition company by Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC to acquire one or more operating businesses with principal activities outside North America.

Units of PGH, comprising both the Shares and the warrants in respect of the Shares ("**Public Warrants**"), were initially admitted for trading on Euronext Amsterdam on 6 February 2008. However, the Shares and Public Warrants began to trade separately on 14 March 2008, following which the units ceased to exist as separate securities and were no longer listed.

On 29 June 2009, PGH announced that it had agreed to acquire PGH2 and its subsidiaries (the "**Pearl Group Acquisition**"). PGH2 was established in April 2005 in connection with the £1.1 billion acquisition of HHG plc's closed life companies by, amongst others, TDR Capital Nominees Limited and certain principals of Sun Capital Partners, and was further expanded in connection with the £5 billion acquisition of Resolution plc in May 2008 and the simultaneous sale of certain assets and companies held by Resolution plc to The Royal London Mutual Insurance Society Limited for £1.3 billion. The Pearl Group Acquisition completed on 2 September 2009 when PGH changed its name to Pearl Group.

The Shares were admitted to the Official List of the FCA and to trading on the London Stock Exchange on 17 November 2009. PGH achieved a premium listing of the Shares on the London Stock Exchange and admitted the Public Warrants to the Official List of the FCA and to trading on the London Stock Exchange on

5 July 2010. The Group achieved inclusion into the FTSE 250 index on 20 September 2010. The Shares and Public Warrants were delisted from Euronext Amsterdam on 17 November 2010.

On 25 March 2014, the Group agreed to dispose of the entire issued share capital of Ignis Asset Management to Standard Life Investments, in return for total consideration of £390 million which was paid in cash upon completion of the divestment. Ignis Asset Management was the Group's asset management business, providing asset management and asset and liability management services to the Phoenix Life Companies as well as to a third party client base of retail, wholesale and institutional investors in the United Kingdom and overseas. Completion of the divestment occurred on 1 July 2014. A payment of £6 million was made to Standard Life Investments on 24 September 2014 in relation to certain contractual balance sheet adjustments which could not be calculated until after closing. PGH and Standard Life Investments also reached agreement on a long-term strategic asset management alliance. The proceeds of the divestment were used to prepay £250 million of certain of the Group's debt facilities.

On 23 July 2014, the Group entered into the Revolving Credit Agreement, as amended and/or restated from time to time, including on 21 March 2016, 24 October 2016, 20 February 2017 and 30 March 2017. Under the Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility in an aggregate principal amount equal to £900 million.

On 3 September 2014, the Public Warrants expired and were delisted from the London Stock Exchange.

On 29 June 2015, the Group entered into an agreement to divest Scottish Mutual International Limited ("**Scottish Mutual International**") (which had 3,000 remaining policyholders) for £14 million. This divestment was completed on 2 December 2015.

On 6 August 2015, PGH announced that each of PLL and PLAL had been assigned the Insurer Financial Strength Rating of "A" with a stable outlook by Fitch Ratings Ltd. The outlook was revised to positive on 27 May 2016.

On 9 November 2015, PGH entered into an agreement with RGA International Reinsurance Company Limited ("**RGA International**"), an external reinsurer, effective from 1 November 2015, to reinsure substantively all of the PLAL annuity liabilities previously ceded to Opal Reinsurance Limited, a subsidiary undertaking of PGH. The Group paid a reinsurance premium of £1,346 million to RGA International.

On 1 November 2016, the Group acquired the SunLife Embassy Business from AXA UK for £373 million in cash. The acquisition added £12 billion of assets under management and over 910,000 policyholders to the Group and is expected to generate cashflows of approximately £300 million in aggregate between 2016 and 2020 and approximately £200 million in aggregate from 2021 onwards. To date, £282 million has been generated from the acquisition.

On 30 December 2016, the Group acquired Abbey Life Assurance Company Limited, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings No. 4 Ltd., a wholly-owned subsidiary of Deutsche Bank AG for £933 million in cash. Proceeds from a rights issue of 144,727,282 new shares at 508 pence per new share, which closed on 25 October 2016 were applied towards the consideration paid for the acquisition.

The acquisition added £10 billion assets under management and 735,000 policyholders. It is expected to generate approximately £0.5 billion of aggregate cashflows between 2016 and 2020 and approximately £1.1 billion in aggregate from 2021 onwards. To date, £236 million has been generated from the acquisition.

On 25 July 2017, the Group announced that the Insurer Financial Strength Rating of PLL and PLAL had been upgraded to "A+" with a stable outlook.

Recent developments

At its Investor Day on 24 June 2017, PGH announced its intention to selectively examine transactions in the bulk purchase annuity market. PGH continues to believe that this market offers an attractive and complementary source of assets for the Group and can confirm that it has recently completed its first external pensions buy-in transaction.

On 23 February 2018, PGH announced the proposed acquisition of Standard Life Assurance Limited (to include Veбnet (Holdings) Limited and exclude certain subsidiaries of SLAL following a pre-Completion restructuring) for a total consideration of £2,930m (subject to adjustment), and the extension and significant enhancement of the existing long term strategic partnership between PGH and Standard Life Aberdeen. The acquisition encompasses all of Standard Life Assurance Limited's UK and European life insurance business. On 23 February 2018, Fitch Ratings Ltd. affirmed PLL's and PLAL's ratings, following PGH's announcement of the Acquisition.

On 23 February 2018, PGH entered into the Backstop Revolving Credit Agreement. Under the Backstop Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest and which can only be utilised if the Revolving Credit Agreement has been cancelled. On 23 February 2018, PGH also entered into the Acquisition Facility Agreement. Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million, which bears a floating interest rate. As at the date of this Prospectus, both the Backstop Revolving Credit Agreement and the Acquisition Facility Agreement are undrawn.

Current trading and outlook

Financial targets

The Group estimates that it is on track to meet its cash generation targets:

- (i) operating companies' cash generation of £1.0 billion to £1.2 billion between 2017 and 2018; and
- (ii) operating companies' cash generation of £2.5 billion between 2018 and 2022.

Cash generation

In 2016, the Group announced a five-year cumulative cash generation target for 2016 to 2020 of £2.0 billion. Following completion of the AXA Transaction and the acquisition of Abbey Life (the "**Abbey Life Acquisition**"), this long-term cash generation target was updated to £2.8 billion. £486 million of cash generation was delivered in the year ending 31 December 2016 and a further £653 million of cash in the year ended 31 December 2017, taking total cash generation to £1.1 billion against this long-term target. On 23 February 2018, the Group announced a new five-year cumulative cash generation target for 2018 to 2022 of £2.5 billion, excluding the impact of the Acquisition. The Group is on track to be at the upper end of its £1.0 to £1.2 billion two-year cash generation target for 2017 and 2018.

The resilience of the cash generation target is demonstrated by the following stress testing:

**1 January
2018 to 31
December
2022**

(£ billion)

Stress testing⁽¹⁾

Base case five-year target.....	2.5
Following a 20 per cent. fall in equity markets	2.5
Following a 15 per cent. fall in property values	2.5
Following a 60 basis points interest rates rise ⁽²⁾	2.7
Following a 80 basis points interest rates fall ⁽²⁾	2.3
Following credit spread widening ⁽³⁾	2.3
Following 6 per cent. decrease in annuitant mortality rates ⁽⁴⁾	2.2
Following 10 per cent. increase in assurance mortality rates	2.4
Following a 10 per cent. change in lapse rates ⁽⁵⁾	2.4

Notes:

- (1) Assumes stress occurs on 1 January 2018.
- (2) Assumes recalculation of transitionals (subject to PRA approval).
- (3) Credit stress equivalent to a c.100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.
- (4) Equivalent of six months' increase in longevity applied to the annuity portfolio.
- (5) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

The Acquisition is expected to generate £1.0 billion of additional aggregate cashflows during the period of the Group's base case five-year target (2018 to 2022).

The resilience of the expected cash generation is demonstrated by the following stress testing on the Enlarged Group:

**1 January
2018 to 31
December
2022**

(£ billion)

Stress testing⁽¹⁾

Base case five-year expected cashflows.....	3.5
Following a 80 basis points interest rates fall ⁽²⁾	3.3
Following credit spread widening ⁽³⁾	3.3
Following 6 per cent. decrease in annuitant mortality rates ⁽⁴⁾	3.0

**1 January
2018 to 31
December
2022**

(£ billion)

Following a 10 per cent. change in lapse rates⁽⁵⁾ 3.3

Notes:

- (1) Assumes stress occurs on 1 January 2018.
- (2) Assumes recalculation of transitionals (subject to PRA approval).
- (3) Credit stress equivalent to a c.100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.
- (4) For the Group annuity portfolio, this is equivalent to six months' increase in longevity.
- (5) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups. For the acquired businesses, assumes a 10 per cent. increase in lapse rates for funds exposed to increased lapses.

One-off shocks would be expected to lead to a deferral of cash emergence rather than a permanent diminution.

Capital position

As at 31 December 2017, the Group reported a Group Solvency II Surplus of £1.8 billion.

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided below and demonstrate the resilience of the Group Solvency II Surplus:

**As at 31
December
2017**

(£ billion)

Base: 31 December 2017	1.8
Following a 20 per cent. fall in equity markets	1.8
Following a 15 per cent. fall in property values	1.8
Following a 60 basis points interest rates rise ⁽¹⁾	1.9
Following a 80 basis points interest rates fall ⁽¹⁾	1.7
Following credit spread widening ⁽²⁾	1.6
Following 6 per cent. decrease in annuitant mortality rates ⁽³⁾	1.5
Following 10 per cent. increase in assurance mortality rates	1.7
Following a 10 per cent. change in lapse rates ⁽⁴⁾	1.7

Notes:

- (1) Assumes recalculation of transitionals (subject to PRA approval).
- (2) Credit stress equivalent to a c.100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.
- (3) Equivalent of six months' increase in longevity applied to the annuity portfolio.
- (4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

For more detail, including in relation to the Enlarged Group, see "Implementation of Solvency II" and "Solvency Capital Requirement" below.

Competitive strengths of the Group

PGH believes that the Group's competitive strengths are as follows:

As the Group is primarily focused on the efficient management of in-force policies and writes limited new policies, the Group has high visibility of its cashflows over the long-term due to the predictable nature of the Group's funds.

The Group's closed life funds provide predictable fund maturity and liability profiles, generating expected long-term cashflows supporting payment of pension obligations, distributions to Shareholders and payment of outstanding debt obligations. The Group will continue to be focused on the efficient management of in-force policies and, even when taking into account the effect of the Acquisition in terms of the potential organic future growth in assets from the Client Service and Proposition Agreement (as defined herein), will write only limited new policies in the context of the Group's business as a whole. The Group therefore does not need to allocate significant capital to support the writing of new policies. Instead, the largest part of the costs of the Group's closed life funds are recurring expenses.

The Group's cashflows are largely generated from the interest earned on capital, policyholder charges and participation in investment returns. Although the impact of the Group's participation in investment returns is not predictable, investment risks are mainly borne by policyholders in accordance with the terms of the relevant policies. In addition, as the Phoenix Life Companies' policies run off, excess capital supporting these liabilities can be released from the Phoenix Life Companies to their shareholders, the Holding Companies. The predictable stream of profits from the run-off of the closed life funds provides some certainty of tax relief on debt interest. In 2016 and 2017, £486 million and £653 million, respectively, of cash was distributed from the Phoenix Life Companies to the Holding Companies.

The Group is the largest specialist closed life fund consolidator in the United Kingdom, with a simplified and scalable business model, allowing it to benefit from economies of scale, diversification benefits and the ability to save costs both internally and through outsourcing arrangements.

With 5.6 million policyholders as at 31 December 2017, the Group is the largest United Kingdom specialist closed life fund consolidator by total number of policyholders. The Group has a track record and an expertise in creating value through integration of acquisitions and financial management, including through realising synergies from acquisitions and focusing on improving outcomes for policyholders of closed life funds. The Group believes that these factors position the Group as a leading consolidator of closed life funds, resulting in a significant value creation opportunity.

The Group believes that the Group's business model provides additional value and scalability, by using outsourced service providers to match its cost base to the run-off profile of the policies held within the Group's closed life funds, as the charges of outsourced service providers are generally based on a variable, per policy cost structure.

The Group seeks to manage the level of costs and required capital by combining life funds, allowing for greater diversification of risks.

There is significant opportunity to create value and accelerate cashflows through the continued implementation of ‘The Phoenix Way’.

‘The Phoenix Way’ characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold. By applying a consistent framework across the Group, the Group believes that ‘The Phoenix Way’ reduces risk, complexity and cost; delivers long-term stability of customer service through efficient co-operation with the Group’s outsourcing partners; increases Solvency II Own Funds; and releases capital to shareholders. An example of ‘The Phoenix Way’ involves the consolidation of a disparate collection of actuarial valuation models onto a single platform, the actuarial systems transformation programme, with the aim of reducing operational risk (and associated capital) of actuarial modelling, improving the quality and frequency of capital monitoring and improving cost efficiency through the simplification and standardisation of actuarial processes. The actuarial systems transformation programme is an essential part of managing the Group’s life businesses under the Solvency II regime.

The Group believes that there are opportunities to further increase value and cashflows to the Holding Companies through additional management actions. Further actions that can create value include the reduction of operational risk and investment in illiquid asset classes such as equity release mortgages.

The Group actively manages its assets and liabilities to help protect and enhance policyholder and shareholder returns.

The Group aims to manage its assets and liabilities to ensure a prudent approach to risk and to give it the ability to use capital efficiently whilst having more control over management of investment and market risk for both policyholders and shareholders. This includes the matching of asset and liability cashflows to reduce capital requirements. In particular, the release of capital through the elimination of unrewarded risk can enable the achievement of higher risk adjusted returns.

Strategy of the Group

The Group specialises in the management and acquisition of closed life and pension funds, currently operating primarily in the United Kingdom. The Group is the United Kingdom’s largest specialist closed life and pension fund consolidator measured by total number of policyholders, with 5.6 million policyholders, £74 billion of assets under management and Solvency II Own Funds of £6.6 billion as at 31 December 2017. The Group is primarily focused on efficient capital management and the extraction of value through management actions, operational efficiency and optimised financing.

The Group seeks to use its expertise to deliver value for shareholders and improve returns for policyholders and customers, whilst continuing to be recognised as the leading solutions provider for the safe, innovative and profitable decommissioning of closed life funds in the United Kingdom. To enable this, the Group’s strategy is to:

- (i) act as a consolidator of life and pensions books, predominantly those that are closed to new business;
- (ii) deploy its specialist skills in operational efficiency, the use of partnerships and outsourcing to reduce costs and improve financial results; and
- (iii) apply its expertise in capital management, regulation and other key areas to achieve better outcomes for policyholders and shareholders.

The Group's areas of strategic focus are:

- **Closed book consolidation:** The Group's principal focus is to be a consolidator of life and pensions books which are predominantly closed to new business. The Group believes that such books of business are best managed within a specialist scale platform and that existing and anticipated market dynamics will generate a further supply of potentially attractive acquisition targets in the future. These dynamics include the impact of the evolving regulatory framework for financial services companies, such as the implementation of Solvency II and Basel III regulations. In addition, the Group believes that the opportunity is expected to be supported by ongoing capital pressure within the sector, the trend of life insurers recycling and refocusing capital from mature to growth businesses, the decline in new with-profit business, changing customer demands and regulatory change driving consolidation in the mutual sector. The Group believes that this opportunity is also supported by the migration of customers to alternative products, creating legacy products and their infrastructure which face cost challenges as the policies run off over time. The management of these books requires specialist skills, particularly in regulation, operational efficiency, capital management, governance and liability customised asset management. To maintain its competitive advantage and maximise the potential for value creation, the Group develops specialist expertise to identify, pursue and execute suitable opportunities in this space. Given the opportunities and its experience, the Group remains predominantly focused on the UK. However, PGH also notes that there are product and market dynamic similarities with certain continental European life markets, which remain comparatively fragmented, having not gone through a sustained period of life consolidation as has been seen in the UK over the past several years. This should allow for a number of consolidation opportunities both within the UK and European markets in the coming years. The Group's operating model is specifically designed for ongoing closed life fund consolidation and the Group is well placed to generate value from further acquisitions. As such, the Group continues to actively explore further acquisition opportunities in the closed life sector, which is estimated to be a £540 billion opportunity across the UK, Germany and Ireland. Having recently completed its first external pensions buy-in transaction, the Group is also active in the bulk purchase annuity market which is estimated to be a £550 billion opportunity over the next 15 years. In the normal course of business, PGH could enter into further acquisitions in the closed life or bulk purchase annuity space in the short term that would meet its acquisition criteria, but are not expected to require PGH to raise further funding.
- **Disciplined approach to M&A:** The Group seeks to make acquisitions consistent with its strategic focus and which are aligned to its acquisition criteria, namely: (i) have a closed life focus; (ii) are value accretive; (iii) support the dividend policy; and (iv) maintain the investment grade rating.
- **Capital management and management actions:** The effective management of the Group's risks and the efficient allocation of capital against them is critical in allowing the Group to achieve its strategic and operational objectives. The Group's Solvency II Internal Model has been approved by the PRA as part of the Solvency II regime. In addition, the Group seeks to implement certain management actions to optimise its capital position and cashflows, such as fund mergers, strategic asset allocation and de-risking. As the Group grows through acquisitions, the opportunities for capital management and management actions tend to increase.
- **Realise the benefits of scale:** Acquisitions are important to the Group's model not only to offset the natural decline of a business largely closed to new business, but also to grow the business and create additional value from scale advantages. Increased scale provides the Group with a number of key differentiating features including the ability to drive operational efficiencies and achieve diversification benefits, as well as ultimately enabling further acquisitions. To take advantage of

acquisition opportunities, the Group has created a scalable operating model and adopts a disciplined pricing model which is supported by the Group's Solvency II Internal Model.

- **Operational efficiency:** The Group routinely applies 'The Phoenix Way' to increase operational efficiency through the standardisation and streamlining of key processes, which will in turn reduce costs, improve performance and enhance value. 'The Phoenix Way' characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold. By applying a consistent framework across the Group, the Group believes that 'The Phoenix Way' reduces risk, complexity and cost; delivers long-term stability of customer service through efficient cooperation with the Group's outsourcing partners; increases Solvency II Own Funds; and releases capital to shareholders. As a result of 'The Phoenix Way', the Group seeks to eliminate unnecessary cost from its business model. In part this is achieved through outsourcing some administrative tasks to selected third parties. When the Group acquires new books of business, this scalable outsourced model supports the delivery of cost savings. At the same time, the Group seeks to ensure that the quality of service provided to its customers is not adversely impacted by such operational optimisation.
- **Financing structure:** The Group intends to manage leverage at a level consistent with maintaining an investment grade rating for the Group and the Group's senior and subordinated debt. Debt will be issued at a range of maturities to achieve a balanced maturity profile. Hybrid debt issuance, using the full spectrum of Solvency II-compliant instruments, will be supportive of the Group's robust capital position. Based on the position as at 31 December 2017, an issuance of £100 million of hybrid debt would increase the Group's Shareholder Capital Coverage Ratio by approximately 4 per cent. and the regulatory coverage ratio by approximately 2 per cent. Based on the pro forma position assuming that the Acquisition, the Rights Issue and the associated financing took place on 31 December 2017, a further issuance of £100 million of hybrid debt (beyond that assumed in the pro forma adjustments) would increase the Enlarged Group's Shareholder Capital Coverage Ratio by approximately 2 per cent. and the regulatory coverage ratio by approximately 1 per cent.
- **Improving customer outcomes:** The Group aims to improve customer experiences through its focus on its chosen market, high levels of governance and extensive experience. The Group has three key areas of focus in relation to its customers, namely:

Value: the Group aims to optimise customer outcomes;

Service: treating customers fairly, with empathy as well as respect, and all in a timely fashion;
and

Security: ensuring customer investments are secure in a well-managed company.

By focusing on these areas proactively and responsibly, the Group believes that it can create value in the long term in a highly regulated sector.

- **Regulatory experience:** The Group's main regulators in the United Kingdom are the PRA and the FCA. The Group is aligned with the aims of both regulators, in seeking both to protect customers and their lifetime savings, and to manage its business with a prudent perspective on financial metrics including capital. The Enlarged Group will also be regulated in Ireland by the CBI and, where it conducts business outside the UK and Ireland, the laws and regulations of a number of other jurisdictions will also apply to the Enlarged Group.

By focusing on these areas proactively and responsibly, the Group believes that it can create value in the long-term in a highly regulated sector.

Structure of the Group

Current structure

The Group operates one business segment: life insurance business (including its management services operations), which is referred to as “**Phoenix Life**”. The Group’s United Kingdom-based Group functions provide support and coordination for the delivery of the Group’s strategic initiatives.

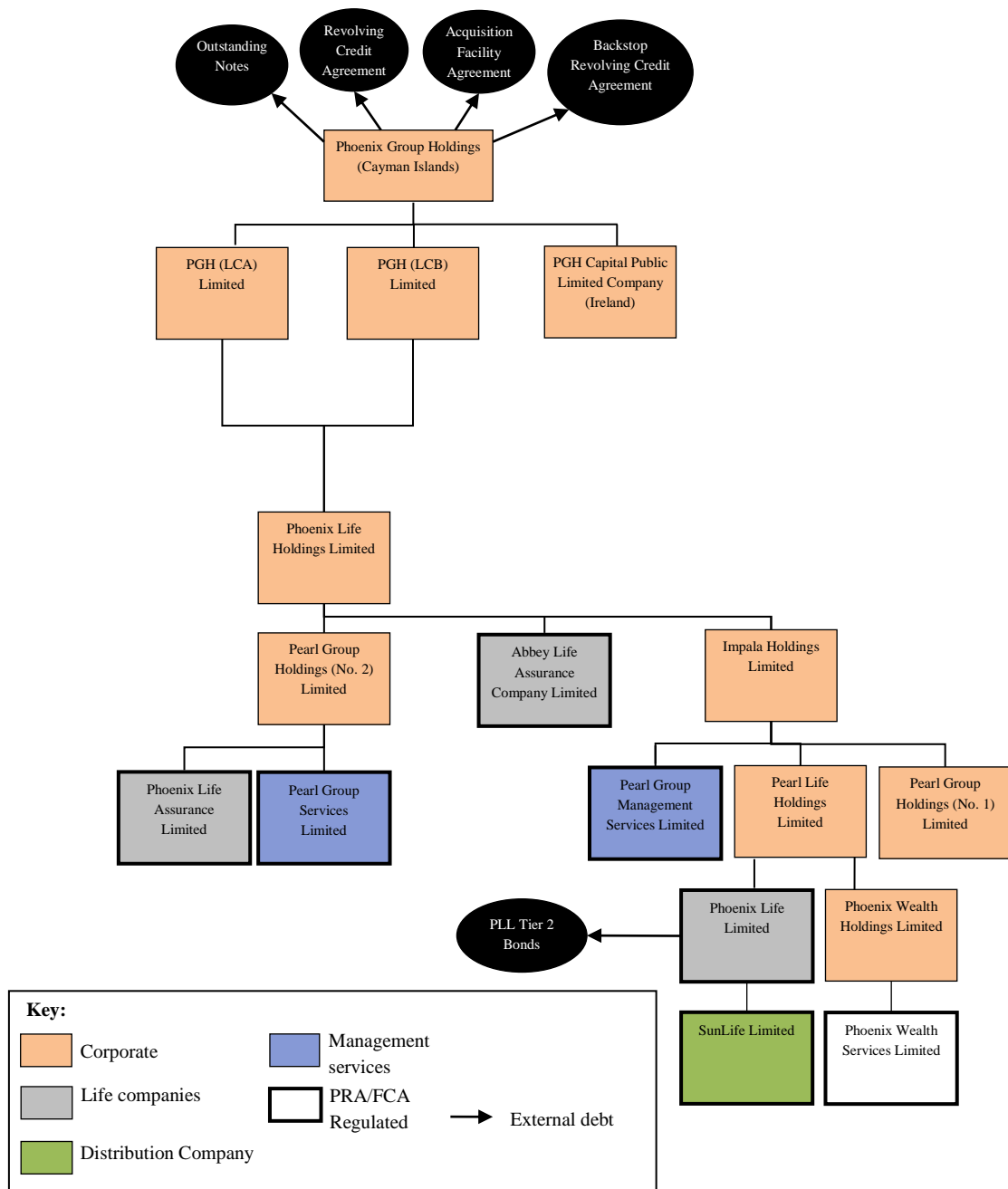
The holding company structure between PGH and the Phoenix Life Companies includes several holding companies which were established in relation to the acquisitions of the original Pearl Life Companies and their affiliates in 2005 and the Resolution Group in 2008.

Prior to PGH becoming United Kingdom tax resident in January 2018, PLHL was the ultimate EEA insurance holding company for group capital purposes and the calculation under the European Union Insurance Group’s Directive (“**IGD**”) and the PLHL (Group) Individual Capital Assessment (“**ICA**”) were therefore historically prepared at that level. From 1 January 2016 to 30 June 2017, following implementation of Solvency II, the Solvency II capital assessment and the Group’s regulatory supervision was performed at the PLHL level, as this was the highest EEA insurance holding company within the Group. This approach was supported by a waiver received from the PRA that permitted Group supervision to take place at the level of PGH, via “other methods” as opposed to full supervision. This waiver expired on 30 June 2017.

From 1 July 2017, regulatory supervision and the solvency capital adequacy assessment was performed at both PGH and PLHL levels. This “dual reporting” continued until 31 January 2018 when PGH’s head office was moved to the United Kingdom from Jersey and PGH is now treated as the ultimate EEA insurance holding company of the Group. During this period, the Group’s capital position was managed at PGH level only, being the more onerous calculation. Accordingly, from 1 July 2017, the PLHL Solvency II Surplus has not been reported.

As part of the on-going simplification of the Group structure, PGH is proposing to put in place a new United Kingdom-registered holding company for the Group as soon as is practicable following Completion. The new company will be both the ultimate EEA and insurance holding company and therefore Solvency II capital assessment and Group supervision will be performed at this level. See also “*Risk Factors – Risks relating to the Group – Regulatory capital and other requirements may change*” and “*PGH is likely to be substituted as principal debtor under the Notes pursuant to a NewCo Scheme without the consent of Noteholders*”.

The following chart gives an overview of the legal structure of the Group and its principal companies as at the date of this Prospectus.

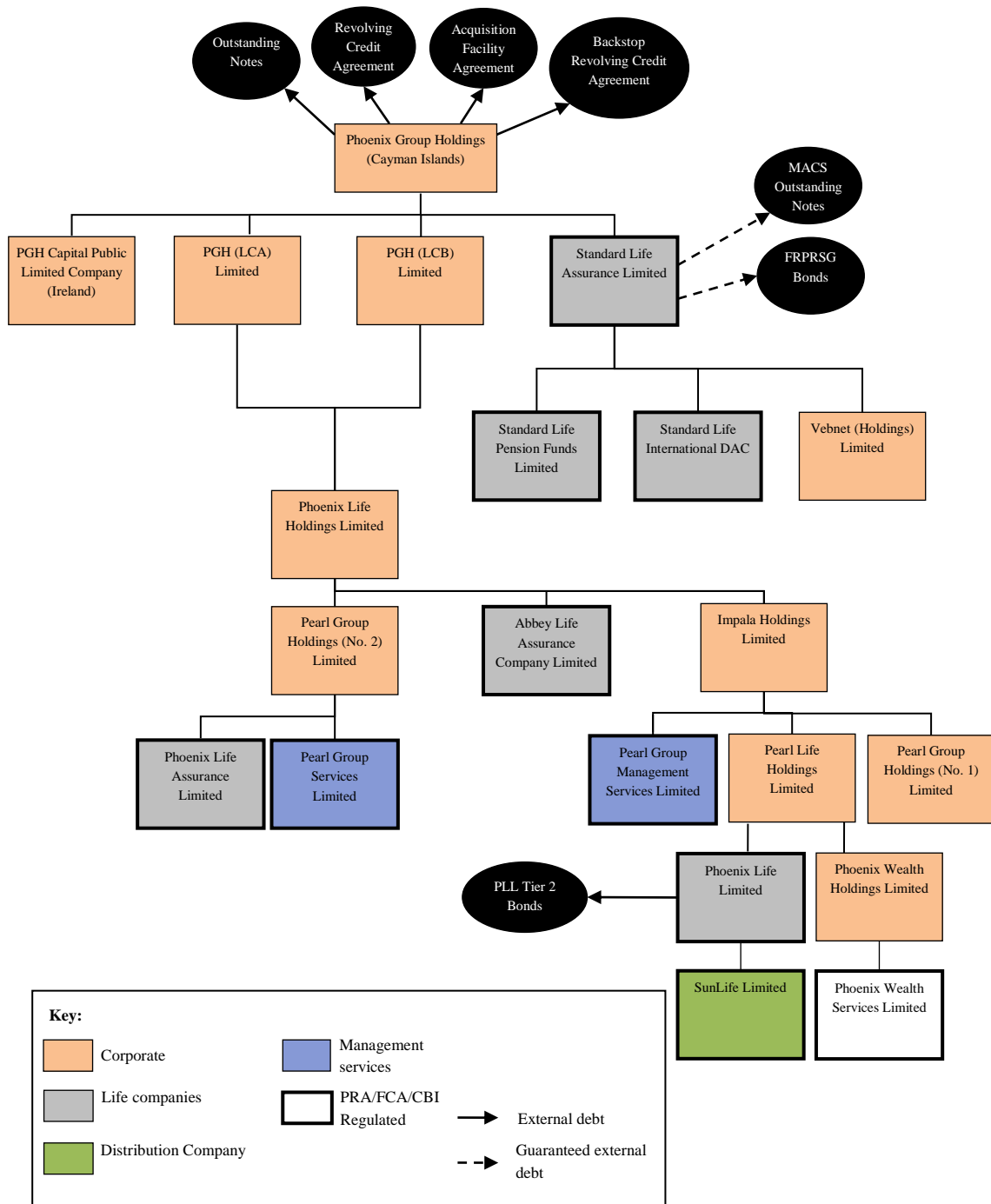


Note:

For the purposes of the structure chart above, the term “Outstanding Notes” means the 2027 Notes, the 2022 Notes, the Senior Bonds and the Subordinated Bonds.

Structure of the Group post-Completion

The following chart gives an overview of the legal structure of the Group and its principal companies as it will be immediately following Completion.



Note:

- (1) For the purposes of the structure chart above, the term “Outstanding Notes” means the 2027 Notes, the 2022 Notes, the Senior Bonds and the Subordinated Bonds.
- (2) SLAL has provided a subordinated guarantee in respect of both the MACS and the FRPRSG Bonds. Details of the MAC’s, the FRPRSG Bonds and the collateralisation arrangement in place with Standard Life Aberdeen in respect of both can be found in “*Information on Standard Life Assurance – Material Contracts*”)

Insurance business

The Phoenix Life Companies are regulated entities that hold the Group's policyholder assets. The Phoenix Life Companies are regulated by both the FCA and PRA. Historically, the Group has sought to reduce the number of its individual life companies through insurance business transfers to optimise capital allocation and economies of scale, the most recent being the insurance business transfer of all of the business of AWL to PLL in 2017.

Although the Phoenix Life Companies are closed life fund companies and do not generally write new business, they do accept additional policyholder contributions on in-force policies and allow certain policies, such as pension savings plans, to be reinvested at maturity into annuities written by a Phoenix Life Company. Writing annuities offers the Group a further opportunity to increase its value through profit margins and incremental investment returns.

Following completion of the AXA Transaction, the Group writes a limited set of directly marketed protection policies, including guaranteed over 50s policies (life insurance policies available to people over 50 years of age, which pay out upon the death of the life assured). SunLife Limited provides the distribution channel for the business of AXA Sun Life Direct Limited (now Phoenix SL Direct Limited) ("**SunLife**"). It receives commissions and incurs costs on behalf of SunLife in relation to the distribution of third party products and is party to distribution contracts with SunLife corporate partners. This insurance provides diversification benefits for the Group because trends towards increased life expectancy will increase liabilities under the annuities written by the Phoenix Life Companies while delaying the payment of liabilities under these life insurance policies.

Reinsurance business

Overview

The Phoenix Life Companies reinsure certain liabilities both to other companies in the Group and to third party reinsurers as part of their ongoing risk and capital management policies, as well as to benefit from operational synergies.

Internal reinsurance

PLAL acts as the reinsurer for various blocks of pensions annuity business as well as with-profit bond business and with-profit elements of unitised with-profit contracts reassured to it by PLL. PLAL reinsures a significant block of unit-linked business to PLL. The business of ALAC has been reinsured into PLL.

The various life funds within PLL and PLAL themselves hold a significant amount of intra-fund arrangements, mostly to achieve financial and operational synergies.

External reinsurance

The Group's external reinsurance arrangements are spread across a number of reinsurers. These reinsurance arrangements cover a range of policy risks, including annuity, mortality and morbidity, long-term disability, critical illness and some investment risk.

Management services

Overview

Each of the Phoenix Life Companies is responsible to its policyholders for the administration of its policy portfolio and the provision of policyholder services, such as the collection of premiums, the provision of policyholder statements, the settlement of claims, the provision of website access and information, and the provision of policyholder information and other related support through contact service centres.

In order to allow the Phoenix Life Companies to benefit from economies of scale, efficient outsourcing partnerships and an innovative integrated technology infrastructure, Phoenix Life's two United Kingdom management service companies, PGS and PGMS, provide, or manage the provision of, policyholder services for certain Phoenix Life Companies under management service agreements. PGS and PGMS are similar in the way they operate and are managed as a single unit. By using management service companies, the Phoenix Life Companies benefit from increased price certainty and a transfer of some operational risks to the management service companies.

If the number of policies held by the Group gradually declines over time, the fixed cost base of the Group's operations as a proportion of policies may increase. The Group's management service companies manage this risk by putting in place long-term arrangements for third party policy administration. By paying a fixed price per policy to the outsourced service providers, the Group minimises the fixed cost element of its operations and allows for positive scalability following acquisitions.

Specialist roles such as finance, actuarial and risk management are retained in-house, ensuring the Group retains full control over the core capabilities necessary to manage and integrate closed life funds. The Phoenix Life Companies continue to retain ultimate responsibility to their policyholders, actively manage service provision and aim to achieve improvement in the quality of services delivered to policyholders.

PGH believes that consolidating policyholder services within Phoenix Life's two management service companies delivers long-term stability for policyholders and also enables the Phoenix Life Companies to share the costs of the provision of these services and other corporate overhead costs and allows the Group to benefit from efficiency savings, reductions in operational risks and the release of risk capital.

In addition, Phoenix Life also has a management service company incorporated in Ireland, Pearl Group Management Services (Ireland) Limited, which provides administration services to Scottish Mutual International (a former group company) under a management services agreement and a *transitional services agreement*.

Significant subsidiaries and associated undertakings of PGH

The following is a list of PGH's significant subsidiaries as at the date hereof:

Wholly-owned subsidiaries

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Abbey Life Assurance Company Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company
Impala Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
PA (GI) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Pearl Group Holdings (No. 1) Limited	Juxon House 100 St Paul's Churchyard London EC4M 8BU United Kingdom	100 per cent.	Holding company
Pearl Group Holdings (No. 2) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Pearl Group Management Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Service company
Pearl Group Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Service company
Pearl Life Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
PGH (LCA) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
PGH (LCB) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Phoenix Life Assurance Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company
Phoenix Life Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Phoenix Life Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Phoenix Unit Trust Managers Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Management of unit trusts
Phoenix Wealth Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Phoenix Wealth Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Service company
SunLife Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Distribution company

Investment

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Primary field of activity
UK Commercial Property Trust Limited	Trafalgar Court, Les Banques St., Peter Port, Guernsey	47.87 per cent.	Commercial property company

For a full list of PGH's interests in subsidiaries and joint ventures please see Note H at pages 170 to 177 in the notes to the consolidated financial statements in the Annual Report and Accounts for the year ended 31 December 2017, which are incorporated by reference in this Prospectus.

Implementation of Solvency II

In accordance with EIOPA and PRA requirements, from 1 January 2016, the Group has undertaken a Solvency II group regulatory capital calculation and a solo assessment for each Phoenix Life Company. Since that date, regulatory capital adequacy for the Group is no longer monitored under the IGD or the PRA requirement for an ICA. As such, 31 December 2015 was the last date on which the Group reported its regulatory capital adequacy under those metrics.

From 1 January 2016 to 30 June 2017, the Solvency II capital assessment and the Group's regulatory supervision was performed at the PLHL level, as this was the highest EEA insurance holding company within the Group. This approach was supported by a waiver received from the prudential regulator that permitted Group supervision to take place at the level of PGH, via other methods as opposed to full supervision. This waiver expired on 30 June 2017.

From 1 July 2017, regulatory supervision and the solvency capital adequacy assessment was performed at both PGH and PLHL levels. This “dual reporting” continued until 31 January 2018 when PGH’s head office was moved to the UK from Jersey. Post-expiry of the waiver, the Group’s capital position has been managed at PGH level only, being the more onerous calculation. Accordingly, from 30 June 2017, the Group Solvency II Surplus is the relevant measure for financial reporting purposes. The PLHL Solvency II Surplus has not been reported from that date and no PLHL reporting to the PRA is required as at 31 December 2017. For further information, see “*Regulatory Overview – Solvency II*”.

Calculation of the Solvency II group regulatory capital calculations involves a valuation in line with Solvency II principles of the Group’s Own Funds and a risk based assessment using an internal model of the Group’s SCR. For further information, see “*Regulatory Overview – Solvency II*”.

The Group SCR is calibrated so that the likelihood of a loss exceeding the Group SCR is less than 0.5 per cent. over one year. This is meant to ensure that capital is sufficient to withstand a broadly ‘1 in 200 year event’ and is calculated in accordance with the Group’s Solvency II Internal Model.

Management actions which could be undertaken to restore the Own Funds level above SCR in a stress scenario include market risk hedging, further longevity swaps, reinsurance, issuance of hybrid debt, deferral or reduction in shareholder dividends, sale of business lines and/or portfolios, review of future planned management actions, review of outsourcing arrangements and equity issuance.

The Group’s Own Funds differ materially from IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance liabilities and intangible assets.

Following the implementation of the Solvency II regulatory regime from 1 January 2016, the Group made certain changes to the assumptions and estimates used in the IFRS valuation of insurance contracts, as follows:

- in determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group amended the risk free reference curve from a gilt yield curve plus a liquidity premium of 10 basis points to the EIOPA swap curve plus 10 basis points.
- for non-participating insurance contract liabilities, the Group previously used a valuation rate of interest and adjusted the liability discount rate by reference to the yield on the assets backing the liabilities to account for credit, default and reinvestment risk. The Group now makes an explicit adjustment to the risk free rate to adjust for illiquidity in respect of assets backing illiquid liabilities. The new approach does not take any additional credit for investment margins compared to the previous methodology.
- for non-participating insurance contract liabilities, the Group previously derived demographic assumptions by adding an implicit prudent margin to best estimate assumptions. The Group has amended its approach in this regard and now sets assumptions at management’s best estimates and recognises an explicit margin for demographic risks. For participating business in realistic basis companies, the assumptions as to future demographic trends continue to represent ‘best estimates’.

The assumption changes were made to align the IFRS basis more closely with the requirements of Solvency II and move the basis closer to management’s expectations of the requirements under the new IFRS with respect to insurance contracts (IFRS 17 – Insurance Contracts), which is expected to be effective for financial periods commencing 1 January 2021 and beyond. As the Group manages its capital in accordance with Solvency II, the changes outlined above mean the IFRS results more closely reflect the way the business is managed and the Group’s risk hedging strategies.

The amendments to the risk-free reference rate and the approach to adjusting for illiquidity increased insurance liabilities by £77 million in the year ended 31 December 2016. This was more than offset by the impact of the change in approach for determining the demographic prudence margin, which reduced insurance liabilities by £115 million. After allowing for other second order impacts of the changes (including the revaluation of certain current liabilities using the swap rather than gilt curve), the overall impact of the above changes in the year ended 31 December 2016 is a benefit to IFRS profit before tax of £31 million.

Solvency Capital Requirement

The Solvency II capital adequacy assessment involves a valuation in line with Solvency II principles of PGH's Own Funds and a risk-based assessment using an internal model of PGH's SCR.

The Group Solvency II Surplus position for PGH as at 31 December 2017 (estimated) and as at 31 December 2016 (pro forma), is set out below:

	31 December 2017⁽⁴⁾	31 December 2016⁽⁴⁾⁽⁵⁾
	<i>(£ billion)</i>	
Own Funds ⁽¹⁾⁽³⁾	6.6	6.0
Solvency Capital Requirement ⁽²⁾	4.8	4.9
Solvency II Surplus (estimated)⁽³⁾	1.8	1.1

Notes:

- (1) Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferrable and fungible between Group companies within a period of nine months.
- (2) Solvency regulatory capital requirements relate to the risks and obligations to which the Group is exposed.
- (3) Equates to a regulatory coverage ratio of 139 per cent. as at 31 December 2017 (2016: 122 per cent. pro forma).
- (4) The estimated Solvency II positions at 31 December 2016 included the adverse impact of an assumed recalculation of transitional measures on technical provisions. A mandatory recalculation of transitional measures on technical provisions was required as at 31 December 2017 and is reflected in the Group Solvency II Surplus position as at that date.
- (5) The position as at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the 2022 Notes and the receipt of the PRA's approval in March 2017 to include the acquired AXA business within the Group's Solvency II Internal Model. Had these adjustments not been made, the estimated surplus as at 31 December 2016 would be £0.4 billion lower.

These figures exclude surpluses arising in the Group's with-profit funds and Group pension schemes of £0.6 billion and £0.4 billion as at 31 December 2017 and 31 December 2016, respectively. In the calculation of the Group Solvency II Surplus, the SCR of the with profit funds and Group pension schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with profit funds and Group pension schemes, whilst not included in the Group Solvency II Surplus, are available to absorb economic shocks. This means that the headline surplus is highly resilient to economic stresses.

The estimated Group Solvency II Surplus increased to £1.8 billion as at 31 December 2017 (31 December 2016: £1.1 billion on a pro forma basis).

The increase includes surplus generation and expected run-off of capital requirements of £0.2 billion over the period. Management actions undertaken, including reductions in expenses from operating synergies and the

impact of strategic asset allocation activities, increased the surplus by £0.4 billion. Total management actions in 2017 were £553 million, including the impact of the receipt of the PRA's approval to include the acquired AXA business within the Group's Solvency II Internal Model, which is reflected in the 31 December 2016 (pro forma) position.

The issuance of the 2022 Notes and the 2027 Notes has increased the Solvency II Surplus by a total of £0.5 billion compared to the pro forma position as at 31 December 2016. Assumption, experience and modelling changes were net neutral on a Solvency II basis, with the net impact of changes to longevity assumptions being offset by the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees.

Economic and other variances decreased the surplus by £0.1 billion and include the premium paid on partial redemption of the Group's £300 million senior bonds, the impact of the agreement to reduce annual charges on workplace pension products to 1 per cent. or lower and acquisition integration costs.

Financing costs, pension contributions and dividend payments (including accrual for the 2017 final dividend) reduced the surplus by £0.3 billion.

The Group focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme.

Unsupported with-profit funds and the PGL Pension Scheme consist of £2.6 billion of Own Funds and £2.0 billion of SCR. Of the £2.6 billion of Own Funds, £2.0 billion consists of estate within the unsupported with-profit funds and £0.6 billion of Own Funds within the PGL Pension Scheme. As described above, the surplus of £0.6 billion in unsupported with-profit funds and the PGL Pension Scheme does not contribute to the Group Solvency II Surplus and the value of their Own Funds is restricted to the value of the related SCR.

Excluding the SCR and Own Funds of £2.0 billion relating to the unsupported with-profit funds and the PGL Pension Scheme, the Solvency II Shareholder Capital Coverage Ratio was 164 per cent. as at 31 December 2017 (2016: 139 per cent. on a pro forma basis).

Prior to 30 June 2017, the Group focused on the Solvency II capital adequacy assessment undertaken at the level of the highest EEA insurance group holding company, which was PLHL. The PLHL Solvency II Surplus position as at 31 December 2016 and as at 31 December 2015 is set out below:

	As at 31 December	
	2016⁽⁴⁾⁽⁵⁾	2015
	<i>(£ billion)</i>	
Own Funds ⁽¹⁾	6.8	5.7
Solvency regulatory capital requirement ⁽²⁾	4.9	4.4
Solvency II Surplus (estimated) ⁽³⁾	1.9	1.3

Notes:

- (1) Own funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non transferrable and fungible between Group companies within a period of nine months.
- (2) Solvency regulatory capital requirements relate to the risks and obligations to which the Group is exposed, calculated using an internal model, offset by Group diversification benefits.
- (3) Equates to a regulatory coverage ratio of 140 per cent. on a pro forma basis (2015: 130 per cent.) and a Shareholder Capital Coverage Ratio of 170 per cent. on a pro forma basis (2015: 154 per cent.).
- (4) The Solvency II positions at 31 December 2016 include the adverse impact of an assumed recalculation of transitional measures on technical provisions.
- (5) The position as at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA business within the Group's Solvency II Internal Model. Had these adjustments not been made, the surplus as at 31 December 2016 would be £0.1 billion lower.

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided below and demonstrate the resilience of the Group Solvency II Surplus:

	Group Solvency II Surplus as at 31 December 2017 <i>(£billion)</i>
Base: 31 December 2017	1.8
Following a 20 per cent. fall in equity markets	1.8
Following a 15 per cent. fall in property values	1.8
Following a 60 basis points interest rates rise ⁽¹⁾	1.9
Following a 80 basis points interest rates fall ⁽²⁾	1.7
Following credit spread widening ⁽³⁾	1.6
Following 6 per cent. decrease in annuitant mortality rates ⁽⁴⁾	1.5
Following 10 per cent. increase in assurance mortality rates	1.7
Following a 10 per cent. change in lapse rates ⁽⁵⁾	1.7

Notes:

- (1) Assumes recalculation of transitionals (subject to PRA approval).
- (2) Credit stress equivalent to a c.100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.
- (3) Equivalent of 6 months' increase in longevity applied to the annuity portfolio.
- (4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

Excluding the SCR and Own Funds of £2.0 billion relating to the unsupported with-profit funds and the PGL Pension Scheme, the Solvency II Shareholder Capital Coverage Ratio was 164 per cent. as at 31 December 2017 (2016: 139 per cent. on a pro forma basis).

The sensitivity of the Enlarged Group's Solvency II Surplus for a number of financial scenarios is provided below based on the unaudited pro forma position as at 31 December 2017:

	Enlarged Group Solvency II Surplus as at 31 December 2017
	<i>(£ billion)</i>
Base: 31 December 2017	2.5
Following a 80 basis points interest rates fall ⁽¹⁾	2.4
Following credit spread widening ⁽²⁾	2.3
Following 6 per cent. decrease in annuitant mortality rates ⁽³⁾	2.0
Following a 10 per cent. change in lapse rates ⁽⁴⁾	2.2

Notes:

- (1) Assumes recalculation of transitionals (subject to PRA approval).
- (2) Credit stress equivalent to a c.100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.
- (3) For the Group annuity portfolio, this is equivalent to six months' increase in longevity.
- (4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups. For the acquired businesses, assumes a 10 per cent. increase in lapse rates for funds exposed to increased lapses.

Minimum Capital Requirement

The minimum capital requirement ("MCR") is intended to be the minimum amount of capital an insurer is required to hold pursuant to Solvency II below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations.

MCR is calculated according to a formula prescribed by the Solvency II regime and is subject to a floor of 25 per cent. of the SCR or €3.7 million, whichever is higher, and a cap of 45 per cent. of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk. PGH's estimated MCR at 31 December 2017 was £1.2 billion, representing the sum of the Group's underlying insurance companies' MCRs. The eligible own funds to cover the MCR is £5.2 billion leaving an excess of eligible Own Funds over MCR of £4.1 billion, which translates to a MCR coverage ratio of 448 per cent.

The eligible Own Funds to cover the MCR is subject to quantitative limits as shown below:

- the eligible amounts of Tier 1 items should be at least 80 per cent. of the MCR; and
- the eligible amounts of Tier 2 items shall not exceed 20 per cent. of the MCR.

	As at 31 December 2017	As at 31 December 2016
	(estimated)	(pro forma)
	<i>(£ billion)</i>	
Eligible Own Funds to MCR		
Tier 1	5.0	5.0
Tier 2	0.2	0.2
Total eligible Own Funds to cover MCR.....	5.2	5.2

Were the Acquisition to have taken place as at 31 December 2017 PGH's estimated MCR would have increased by £1.3 billion and the total eligible Own Funds to cover MCR would have increased by £3.5 billion.

Description of indebtedness

Overview

The Group intends to manage leverage at a level consistent with maintaining an investment grade rating for PGH and the Group's senior and subordinated debt. The total principal amount outstanding under the 2027 Notes, 2022 Notes, Senior Bonds, Subordinated Bonds, PLL Tier 2 Bonds and credit facilities as at 31 December 2017 was £1,585 million of which £835 million was issued during 2017 (with the principal of the 2027 Notes included at the swapped rate of £385 million). A description of the Group's own indebtedness on the date of this Prospectus is set out below. See the sections of this Prospectus entitled "*Unaudited Pro Forma IFRS Financial Information*" and "*Unaudited Pro Forma Solvency Information*" for certain assumptions as to expected adjustments to the level of indebtedness of the Issuer by the time of Completion and which relate to the Acquisition. See also the risk factor entitled "*The Group could be materially adversely affected by its indebtedness*".

Senior Bonds

On 7 July 2014, PGHC issued the Senior Bonds, being a £300 million senior unsecured bond with an annual coupon of 5.75 per cent., which was guaranteed by PGH on a senior basis. On 20 March 2017, PGH was substituted in place of PGHC as issuer of the Senior Bonds. The Senior Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of PGH. Unless previously redeemed or purchased and cancelled, the Senior Bonds will mature on 7 July 2021. The Senior Bonds are listed on the London Stock Exchange. In 2017, the Group repurchased £178,390,000 of the principal of the Senior Bonds. As at 31 December 2017, the outstanding principal amount under the Senior Bonds was £121,610,000.

2022 Notes

On 20 January 2017, PGHC issued the 2022 Notes, being a £300,000,000 Tier 3 subordinated note with an annual coupon of 4.125 per cent. On 20 March 2017, PGH was substituted in place of PGHC as issuer of the 2022 Notes. On 5 May 2017, PGH completed the issue of a further £150 million of the 2022 Notes (bringing the total outstanding principal amount to £450 million). The 2022 Notes constitute direct, unsecured and subordinated obligations of PGH. On a winding-up of PGH or in the event that an administrator of PGH is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2022 Notes will rank junior in priority to the claims of all senior creditors of PGH, but senior to the Subordinated Bonds and the 2027 Notes. Unless previously redeemed or purchased and cancelled, the 2022

Notes are scheduled to mature on 20 July 2022, subject to and in accordance with their terms. The 2022 Notes are listed on the London Stock Exchange.

Subordinated Bonds

On 23 January 2015, PGHC issued the Subordinated Bonds, being £428,113,000 6.625 per cent. Guaranteed Subordinated Bonds due 2025 guaranteed on a subordinated basis by PGH. On 20 March 2017, PGH was substituted in place of PGHC as issuer. The Subordinated Bonds constitute direct, unsecured and subordinated obligations of PGH. On a winding-up of PGH or in the event that an administrator of PGH is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the Subordinated Bonds will rank junior in priority to the claims of all senior creditors of PGH and the 2022 Notes. Unless previously redeemed or purchased and cancelled, the Subordinated Bonds are scheduled to mature on 18 December 2025, subject to and in accordance with their terms. The Subordinated Bonds are listed on the London Stock Exchange.

2027 Notes

On 6 July 2017, PGH issued the 2027 Notes, being US\$500,000,000 5.375 per cent. Tier 2 Notes due 2027. The 2027 Notes constitute direct, unsecured and subordinated obligations of PGH. On a winding-up of PGH or in the event that an administrator of PGH is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2027 Notes will rank junior in priority to the claims of all senior creditors of PGH and the 2022 Notes. Unless previously redeemed or purchased and cancelled, the 2027 Notes are scheduled to mature on 6 July 2027, subject to and in accordance with their terms. The 2027 Notes are listed on the London Stock Exchange.

PLL Tier 2 Bonds

In July 2001, Scottish Mutual Assurance Limited (which was then known as Scottish Mutual Assurance plc) issued the PLL Tier 2 Bonds, being £200 million 7.25 per cent. undated, unsecured subordinated notes. With effect from 1 January 2009, as a part of a Part VII transfer, the PLL Tier 2 Bonds were transferred into the shareholder fund of PLL. The PLL Tier 2 Bonds have no fixed redemption date. The earliest date upon which PLL can redeem the PLL Tier 2 Bonds is on 25 March 2021 and on each fifth anniversary thereafter. In the event of the winding-up of PLL, the right of payment under the PLL Tier 2 Bonds is subordinated to the rights of the higher-ranking creditors (principally policyholders). The PLL Tier 2 Bonds are listed on the Luxembourg Stock Exchange. On 23 December 2014, the terms of the PLL Tier 2 Bonds were amended pursuant to an extraordinary resolution of the holders of the PLL Tier 2 Bonds and a supplemental trust deed effecting such changes in order to ensure that the PLL Tier 2 Bonds were compliant with the requirements of the General Prudential sourcebook as they applied to PLL. The PLL Tier 2 Bonds will continue to be treated as tier 2 capital for up to ten years from 1 January 2016 under the transitional arrangements set out in Solvency II.

Credit Facilities

Revolving Credit Agreement: For further information on the Revolving Credit Agreement, see “*Information on the Group – Material Contracts*”. The Revolving Credit Agreement has been underwritten on a certain funds basis.

Indebtedness

During the year ended 31 December 2017, cash receipts from Phoenix Life Companies were £653 million and finance costs attributable to owners were £104 million, resulting in a cash coverage ratio of 6.3:1. The cash coverage ratio (cash receipts: finance costs attributable to owners) is an indicator of the ability of the Group to meet its debt servicing costs, subject to any necessary regulatory permissions to loan or dividend up such cash amounts and any other regulatory restrictions on payments.

As at 31 December 2017, the Group had the following indebtedness:

	As at 31 December 2017
	<i>(£ million)</i>
Total current debt	
Secured ⁽¹⁾	51
Total current debt	51
Total non-current debt (excluding current portion of the long-term debt)	
Secured ⁽¹⁾	187
Unguaranteed / Unsecured ⁽²⁾	1,540
Total non-current debt	1,778

Notes:

- (1) Secured debts related to the £120 million 7.59 per cent. Class A2 limited recourse bonds, with an outstanding principal of £60 million as at 31 December 2017, secured against embedded value on a block of policies within PLAL, and the Property Reversions loan from Santander UK plc, secured against related residential property reversions, and the Abbey Life Retrocession Contracts, secured on future surplus arising on a block of life insurance policies originating from the wholly-owned Spanish and Portuguese subsidiaries of Banco Santander, S.A. These borrowings are classified as policyholder borrowings as they have either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations.
- (2) The PLL Tier 2 Bonds are undated and unsecured. The Subordinated Bonds, 2027 Notes and 2022 Notes are dated and unsecured. The right of payment under the notes is subordinated to the rights of higher-rankings creditors (notably policyholders). The Senior Bonds are unsubordinated.

Capitalisation

As at 31 December 2017, the Group had the following capitalisation:

	As at 31 December 2017
	<i>(£ million)</i>
Shareholders' equity	
Share capital.....	-
Share premium.....	1,452
Shares held by the employee trust and Group entities.....	(2)
Foreign currency translation reserve.....	96
Owner-occupied property revaluation reserve.....	5
Cash flow hedging reserve.....	(11)

	As at 31 December 2017
	<i>(£ million)</i>
Retained earnings.....	1,615
Total capitalisation	3,155

There has been no material change in the issued share capital PGH since 31 December 2017. The Group has no indirect and contingent indebtedness.

Distributable items

PGH is subject to the Companies Law, under which distributions can be made out of retained earnings (profits) or share premium, subject in each case to a solvency test. The solvency test is broadly consistent with the Group's going concern assessment criteria.

As at 31 December 2017 PGH's distributable items comprised:

	As at 31 December 2017
	<i>(£ million)</i>
Retained earnings (profits).....	697
Share premium.....	1,449
Total	2,146

Outsourcing relationships

The Group's outsourced service providers are specialist providers of life and pensions administration services, asset management and fund administration services, with the know-how, expertise and business models that put asset management and administration at the core of their service offerings. The services provided by outsourced service providers include policy administration, human resources, financial administration, asset management and fund administration services.

The most significant outsourcing relationships for policy administration services are with Diligenta and Capita Life and Pensions, and for asset management services is with Standard Life Aberdeen plc, Janus Henderson Investors and Deutsche Asset Management (UK) Ltd. In addition, there are a number of other key outsourcing partners.

As closed life funds run-off, fees generated from the management of policies generally decrease over time. Therefore, the Group is best served by closely aligning its costs with the policy run-off profile of its book. Any costs that do not decline in line with a declining policy book create potential operating profit challenges. The use of outsourced service providers enables the Group to better shift its cost base from a largely fixed cost base to a more variable per-policy basis. The Group's outsourced service providers are also able to offer their services at a competitive price per policy due to their larger economies of scale and infrastructure investments.

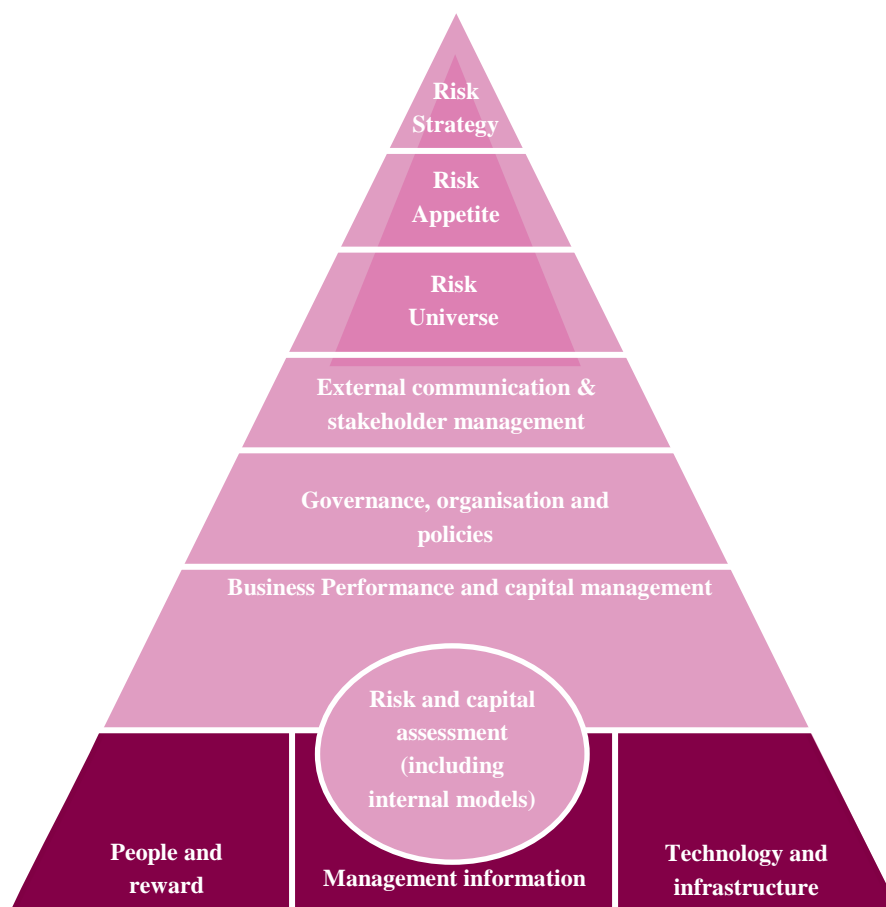
Group functions

The Group operates centralised functions that provide Group-wide and corporate-level services and manage corporate activity. The Group-level operations include Group Finance, Treasury, Group Tax, Group Actuarial, Group Risk, Legal Services, HR, Corporate Communications, Strategy and Corporate Development, Investor Relations, Company Secretariat and Group Internal Audit.

Risk management

Risk management lies at the heart of what the Group does and is a source of value creation, making it a key component of the Group's strategic agenda. The Board seeks to ensure that the Group identifies and manages all risks accordingly, either to create additional value for its stakeholders or to mitigate any potentially adverse effects to the Group.

Risk culture



The Group seeks to embed a culture that is forward-looking and competent in its assessment and management of risk, a culture where everyone in the Group is aligned in their goals to deliver better risk-based decisions.

To support this goal, the Group defined a Risk Culture Statement which sets out the Group's aspirations for risk management:

“The Group has a balanced risk culture, supportive of commercial risk taking coupled with strong execution in line with its risk appetite.”

At its core are the Group's values and behaviours, clarity of accountability and a healthy tension between the first and second lines of defence.

Collectively this means people understand the Group's approach to risk, take personal responsibility to manage risk in everything they do and encourage others to follow their example."

On an annual basis Group Risk conducts a risk culture survey, the results of which enable the Group to assess and measure the Group's risk culture over time as well as being able to tailor training programmes to ensure the continued engagement and development of the Group's employees.

During the year, adoption of the RMF to the Abbey Life business has strengthened oversight and management of the legacy issues and the ongoing FCA enforcement investigations. The Group risk function played a key role in the successful application to bring AXA Wealth and Abbey Life into the Group's Internal Model. The function has also led contingency planning activities in the event of an adverse outcome from Brexit. The key risk management skillsets and processes across the business support the Group in targeting transactions in the bulk annuity market.

The Group's Risk Management Framework

The Group's risk management framework ("RMF") embeds proactive and effective risk management across the Group. It seeks to ensure that all risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes.

Further details on the ten components of our RMF are provided below, with its effective operation underpinned by our risk culture.

The Group's risk strategy provides an overarching view of how risk management is incorporated consistently across all levels of the business, from decision-making to strategy implementation.

It assists the business in achieving its strategic objectives by supporting a more stable, well managed business with improved customer and shareholder outcomes.

This is achieved not by risk avoidance, but through the identification and management of an acceptable level of risk (its 'risk appetite') and by ensuring that the Group is appropriately rewarded for the risks it takes.

To ensure that all risks are managed effectively the Group is committed to:

- embedding a risk aware culture;
- maintaining a strong system of internal controls;
- enhancing and protecting customer and shareholder value by continuous and proactive risk management;
- maintaining an efficient capital structure; and
- ensuring that risk management is embedded into day-to-day management and decision-making processes.

Risk Appetite

The Group's risk appetite is the level of risk the Group is willing to accept in pursuit of its strategic objectives. The statements below encapsulate our risk appetite for policyholder security and conduct, earnings volatility, liquidity and our control environment:

- **Capital:** The Group and each Phoenix Life Company will hold sufficient capital to meet regulatory requirements in a number of asset and liability stress scenarios.

- **Cashflow:** The Group will seek to ensure that it has sufficient cash flow to meet its financial obligations and will continue to do this in a volatile business environment.
- **Shareholder Value:** The Group will take action to protect its shareholder value.
- **Regulation:** The Group and each Phoenix Life Company will, at all times, operate a strong control environment to ensure compliance with all internal policies and applicable laws and regulations, in a commercially effective manner.
- **Conduct:** The Group has no tolerance for deliberate acts of misconduct or omissions that result in poor customer outcomes, reputational damage and/or pose a risk to the FCA's statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by limiting the volatility of key parameters under adverse scenarios. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits. Assessment against these limits is undertaken through extensive scenario and reverse stress testing.

Risk Universe

A key element of effective risk management is ensuring that the business has a complete understanding of the risks it faces. These risks are defined in the Group's risk universe.

The risk universe allows the Group to deploy a common risk language, allowing for meaningful comparisons to be made across the business.

There are three levels of risk universe categories. The highest risk universe category is Level 1 and includes:

- strategic risk;
- customer risk;
- financial soundness risk;
- market risk;
- credit risk;
- insurance risk; and
- operational risk.

Embedded within these categories, and customer risk in particular, are the conduct risks faced by the Group and its customers. These risks are separately monitored and reported on across the organisation to ensure that conduct risk receives appropriate emphasis and oversight.

The Group has developed a Board-approved risk appetite statement to manage conduct risk. The appetite statement is supported by the assessment of all conduct related risks faced by the Group on a quarterly basis. This regular assessment and reporting enables us to be forward-looking and proactive in the management of conduct risk.

External Communication and Stakeholder Management

The Group has a number of internal and external stakeholders, each of whom has an active interest in the Group's performance, including how risks are managed. Significant effort is made to ensure that our stakeholders have appropriate, timely and accurate information to support them in forming views of the Group.

Governance, Organisation & Policies

Governance

Overall responsibility for approving, establishing and embedding the RMF rests with the Board. The Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities from the Board to the PLHL Board, the Phoenix Life Company Boards and the executive committee of PLHL that provides day-to-day direction (the “**Executive Committee**”).

The RMF is underpinned by the operation of a three lines of defence model with clearly defined roles and responsibilities for statutory boards and their committees, management oversight committees, Group Risk and Group Internal Audit.

First line: Management: Management of risk is delegated from the Board to the Group Chief Executive Officer, Executive Committee members and through to business managers. A series of business unit management oversight committees operate within the Group. They are responsible for implementation of the RMF, ensuring the risks associated with the business activities are identified, assessed, controlled, monitored and reported.

Second line: Risk Oversight: Risk oversight is provided by the Group Risk function and the risk committee of the Board (the “**Board Risk Committee**”). The Board Risk Committee comprises four independent non-executive Directors (as at the date hereof) (the “**Non-Executive Directors**”) and is supported by the Group Chief Risk Officer. A Phoenix Life risk committee is in place to provide focus on risk matters at Phoenix Life.

Third line: Independent Assurance: Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the audit committee of the Board (the “**Audit Committee**”).

Organisation

The Group Chief Risk Officer manages the Group Risk function and has responsibility for the implementation and oversight of the Group’s RMF. The Group Risk function has responsibility for oversight over financial, operational and regulatory risk. The PRA/FCA relationship team manages the relationship and interactions with our primary regulators and reports to the Group Chief Risk Officer.

Policies

The Group policy framework comprises a set of policies that supports the delivery of the Group’s strategy by establishing operating principles and expectations for managing the key risks to our business. The policy set contains the minimum control standards to which each business unit must adhere to and against which they report compliance. The policies define:

- the individual risks the policy is intended to manage;
- the degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;
- the minimum controls required in order to manage the risk to an acceptable level; and
- the frequency of the control’s operation.

Each policy is the responsibility of a member of the Executive Committee who is charged with overseeing compliance throughout the Group.

Business Performance and Capital Management

The annual operating plan is assessed to ensure that the Group operates within our stated risk appetite. Business performance is routinely monitored with consolidated reporting against performance targets.

The Group operates a capital management policy where capital is allocated across risks where capital is held as a mitigant and the amount of risk capital required is reviewed regularly.

Risk and Capital Assessment

The Group operates a standardised assessment framework for the identification and assessment of the risks to which it may be exposed and how much capital should be held in relation to those exposures. This framework establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding capital management at all levels of the Group in line with Solvency II requirements.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives.

Stress and scenario tests are used extensively to support the assessment of risk and provide analysis of their financial impact.

Independent reviews conducted by Group Risk provide further assurance to management and the Board that individual risk exposures and changes to our risk profile are being effectively managed.

Management Information

Overall monitoring and reporting against the risk universe takes place in business unit management committees and Boards. This is then reported to the Executive Committee, Phoenix Life Company Boards and the Board via regular risk reporting.

The Phoenix Life Company and Phoenix Board Risk Committees receive a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the overall position against risk appetite limits. The Risk Committees are also provided with regular reports on the activities of the Group Risk function.

People and Reward

Effective risk management is central to the Group's culture and its values. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the RMF.

Technology and Infrastructure

The Group employs market leading risk systems to support the assessment and reporting of the risks it faces. This enables management to document key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

FCA thematic reviews

The Group and the thematic review on the fair treatment of long standing-customers in the life insurance sector

The Phoenix Life Companies co-operated with the FCA in respect of its thematic review on the fair treatment of long standing customers in the life insurance sector. A number of firms which were the subject of the review are now the subject of additional investigation, including ALAC.

On 9 December 2016, the FCA published its finalised guidance on the fair treatment of long standing customers in the life insurance sector. The guidance sets out the FCA's expectations on the actions life insurance firms should take to treat their closed-book customers fairly. The guidance covers four high-level customer outcomes:

- the firm's strategy and governance framework results in the fair treatment of closed-book customers;
- the firm's closed-book customers receive clear and timely communications about policy features at regular intervals and at key points in the product of lifecycle to enable them to make informed decisions;
- the firm gives adequate consideration to, and takes proper account of, fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately; and
- the firm's closed-book customers are able to move from products that are no longer meeting their needs in a fair reasonable manner.

A number of the firms which are the subject of the review are now the subject of additional FCA investigations, to explore whether remedial and/or disciplinary action is necessary or appropriate in respect of exit or paid up charges being applied. ALAC is one of these firms. Additionally, ALAC is one of two firms being investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. This investigation into wider contraventions of regulatory requirements focuses on behaviour from December 2008. The FCA has stated that these investigations are designed to establish the reasons for the practices within firms, whether customers have suffered detriment as a result and how widespread any practices are within these firms.

The FCA has not yet notified ALAC of its final conclusions regarding the outcome of the enforcement investigation. It is possible that, as a result of the investigation, ALAC may incur costs as a result of financial penalties (which may be incurred shortly after the FCA publishes its final conclusions) and/or other costs associated with the FCA's findings. Deutsche Bank has provided PLHL with an indemnity, with a duration of six years, in respect of such exposures. The maximum amount that can be claimed under the indemnity (when aggregated with claims under the indemnity in respect of the thematic review on annuity sales practices, as discussed further below) is £175 million and it applies to all regulatory fines and 60 to 90 per cent. of the costs of customer remediation. While this indemnity may mitigate ALAC's costs (and accordingly, the Group's costs), some costs will fall outside the scope of the indemnity and/or may exceed the maximum amount PLHL can claim under the indemnity and/or become irrecoverable should Deutsche Bank become subject to insolvency or any other analogous events, meaning that ALAC (and accordingly, the Group) will ultimately retain liability for them. In addition, ALAC may also be the subject of private censure, public censure, adverse publicity and/or resulting reputational damage, which may in turn damage the Group, the effect of which will not be mitigated by any indemnity.

In May 2016, the FCA launched a consultation on proposals to cap early exit pension charges, both for existing contracts that contain an early exit charge (where it is proposed the cap would be 1 per cent. of policy value) and also new contracts (where no exit charge would be permitted). On 15 November 2016, the FCA announced that, from 31 March 2017, where a customer is over 55 years of age and therefore eligible to realise benefits from its pension pot, early exit charges will be capped at 1 per cent. of the value of existing contract-based personal pensions. For customers over 55 years of age, early exit charges that are currently set at less than 1 per cent. have not been increased. In addition, a cap on occupational schemes was introduced by the Department of Work and Pensions in October 2017. The Group introduced these changes in 2017 for all pension customers.

In June 2017, the FCA issued a request for information to assist them with planning the scope of their forthcoming Thematic Review of the Fair Treatment of with-profits customers. This information was supplied in August 2017. This work is ongoing.

The Group and the thematic review on annuity sales practices

For further information on the thematic review on annuity sales practices see “*Regulatory Overview – FCA thematic review – The thematic review on annuity sales practices*”.

Pensions

The Group has three main staff pension schemes for its employees: the Pearl Scheme, the PGL Pension Scheme and the Abbey Life Pension Scheme. For certain senior managers and other members of management, the Group also offers individual pension contracts.

The Pearl Scheme

The Pearl Scheme comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members and since 1 July 2011 have also been closed to future accrual by active members. The Pearl Scheme has no active members.

A triennial funding valuation of the Pearl Scheme as at 30 June 2012 was completed in May 2013. This showed a deficit as at 30 June 2012 of £480 million on the agreed technical provisions basis. On 27 November 2012, PGH2 as principal employer and the trustee of the Pearl Scheme entered into the 2012 Pensions Agreement. The principal terms of the 2012 Pensions Agreement are:

- annual cash payments which were paid to the scheme of £70 million in 2013 and 2014, followed by payments of £40 million in September each year from 2015 to 2021. The 2012 Pensions Agreement includes a sharing mechanism, relating to the level of dividends paid out of PGH2, that in certain circumstances allows for an acceleration of the contributions to be paid to the Pearl Scheme;
- additional contributions may become payable if the scheme is not anticipated to meet the two agreed funding targets: (i) to reach full funding on the technical provisions basis by 30 June 2022; and (ii) to reach full funding on a gilts flat basis by 30 June 2031;
- the trustee of the Pearl Scheme continues to benefit from a first charge over shares in PLAL, Pearl Group Services Limited and PGS2 Limited. The value of the security claim granted under the share charges is capped at the lower of £600 million and 100 per cent. of the Pearl Scheme deficit (calculated on a basis linked to United Kingdom government securities) revalued every three years; and
- covenant tests relating to the embedded value of certain companies within the Group.

A triennial valuation for the Pearl Scheme as at 30 June 2015 was completed in September 2016. This showed a deficit of £300 million as at 30 June 2015 on the agreed technical provisions basis. As part of the 2015 triennial valuation discussions, PGH2 and the trustee of the Pearl Scheme agreed to change the timing of the contributions under the 2012 Pensions Agreement to be payable on a monthly basis. As at 31 December 2017, £150 million of these contributions are still to be paid.

The Revolving Credit Agreement, the Backstop Revolving Credit Agreement and the Acquisition Facility Agreement restricts the Group’s ability, with certain exceptions, to transfer assets into the companies over which the trustee of the Pearl Scheme holds a charge over shares.

For further information on the Pearl Scheme, see “*Information on the Group – Material Contracts*”.

The PGL Pension Scheme

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

The defined benefit sections of the PGL Pension Scheme is a final salary arrangement which is closed to new members and since 1 July 2011 has also been closed to future accrual by active members. The PGL Pension Scheme has no active members.

The PGL Pension Scheme is administered by a separate trustee company, PGL Pension Trustee Ltd. The trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the trustee company's articles of association. The trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

A triennial funding valuation of the PGL Pension Scheme as at 30 June 2015 was completed in June 2016. This showed a surplus of £164 million on the agreed technical provisions basis as at 30 June 2015.

As at 31 December 2017, no further contributions are still to be paid.

Benefits for the majority of the scheme's pensioners in payment are provided by PLL under an insurance buy-in contract.

For further information on the PGL Pension Scheme, see "*Information on the Group – Material Contracts*".

The Abbey Life Pension Scheme

The Abbey Life Pension Scheme is a final salary arrangement containing a small amount of defined contribution benefits, and is closed to new members but remains open to future accrual by active members. As at 31 March 2017, the Abbey Life Pension Scheme had 15 active members.

On 28 June 2013, ALAC and the Trustees entered into a contractual funding agreement (the "**2013 Funding Agreement**"), which provides for certain payment triggers pursuant to which monies in a charged escrow account are released to the Trustees. The triggers are: (i) the insolvency of Abbey Life; (ii) a deficit in the Abbey Life Pension Scheme on a specifically defined basis as at 31 March 2021; (iii) failure to calculate that specifically defined deficit by 31 May 2022; and (iv) a debt becoming due from Abbey Life to the Trustees under Section 75 of the Pensions Act 1995 (broadly, on the winding up of the Abbey Life Pension Scheme). On payment trigger (i), (iii) or (iv) arising, Abbey Life must pay to the Trustees the lower of the Section 75 debt and the value of the assets in the escrow account. On payment trigger (ii), Abbey Life must pay to the Trustees the lowest of the deficit on the specifically defined basis, the Section 75 debt and the value of the assets in the escrow account.

A triennial funding valuation of the Abbey Life Pension Scheme was completed in June 2016. This showed a deficit of £107 million as at 31 March 2015 on the scheme funding (technical provisions) basis.

The trustees of the Abbey Life Pension Scheme and PeLHL entered into an agreement on 29 June 2017 under which PeLHL became the scheme sponsor and will pay the following deficit recovery contributions to the scheme:

- an initial payment of £25 million in July 2017 with monthly contributions of £400,000 between 1 July 2016 and 30 June 2026; and
- payment of £4 million (in cash or by agreed assets) by 31 July each year from 2017 to 2025 into the 2016 charged account. The payment triggers for this charged escrow are as in the 2013 Funding Agreement, though referring to a specified deficit as at 31 March 2027, and to determine whether a surplus arises, the assets in the 2013 Charged Account are also taken into account.

The 2013 Charged Account and the 2016 Charged Account contained a combined £44.8 million as at 31 December 2017.

For further information on the Abbey Life Pension Scheme, see “*Information on the Group – Material Contracts*”.

Litigation and Arbitration Proceedings

The Phoenix Life Companies are participating in two of the FCA’s thematic reviews relating to the pensions and life insurance sector. The thematic review on the fair treatment of long-standing customers in the life insurance sector has been completed and the FCA has published its final guidance. Following the thematic review, on 23 May 2017, the FCA confirmed to ALAC that it would be required to undertake a “past business review” covering all annuities sales over the period from 1 July 2008 to 31 October 2016. For a description of the potential impact of these thematic reviews on the Group, see “*Risk Factors – Risks relating to the Group – The thematic review on the fair treatment of long-standing customers in the life insurance sector may affect the Group’s business*” and “*Risk Factors – Risks relating to the Group – The thematic review of annuity sales practices may affect the Group’s business*”.

On 5 June 2015, PA (GI) was subject to a judgment in the Chancery Division of the Companies Court. The judgment directed that PA (GI) is liable to the claimants for mis-selling complaints and claims relating to a book of creditor insurance business that PA (GI) underwrote until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to these complaints. PA (GI) has paid a total of £20 million in respect of such complaints and claims, including associated costs of administering the claims, as at 31 December 2017 and has recognised an accounting provision in this regard of £40 million as at 31 December 2017. In the year ended 31 December 2017, a £21 million increase in the provision for claims was recognised.

The FCA has introduced a deadline for creditor insurance claims of August 2019. The FCA has also commenced a publicity campaign, the purpose of which is to ensure persons with a right of claim are aware of their rights prior to the deadline. Until that deadline has passed, PGH is unable to confirm its maximum exposure in respect of this matter. The campaign is likely to increase the number of complaints for which PA (GI) may have to pay redress. Such an increase could result in the total additional liability of the Group in respect of these complaints and claims being in excess of the £40 million for which provision has been made in PGH’s financial statements as at 31 December 2017.

In the year ended 31 December 2017, reimbursements of £39 million have been recognised by PA (GI) in respect of recoveries due or received from third parties in connection with the Group’s exposure to these complaints. This represents recoveries due from third parties under contractual arrangements. Recoveries of £7 million were received during the year ended 31 December 2017. At 31 December 2017, recoveries of a further £32 million were due to PA (GI) in respect of both past and estimated future complaint payments and liabilities.

Directors

The following table lists the names, ages and positions of the Directors:

Name	Age	Position
Henry Staunton	69	Chairman and Nomination Committee Chairman
Clive C R Bannister	59	Group Chief Executive Officer
James McConville	61	Group Finance Director
Ian Cormack	70	Senior Independent Director
Alastair Barbour	65	Independent Non-Executive Director and Audit Committee

		Chairman
Karen Green	50	Independent Non-executive Director
Wendy Mayall	60	Independent Non-executive Director
John Pollock	59	Independent Non-executive Director and Board Risk Committee Chairman
Belinda Richards	60	Independent Non-executive Director
Nicholas Shott	66	Independent Non-executive Director
Kory Sorenson	49	Independent Non-executive Director and Remuneration Committee Chairman

The business address of each of the Directors is Juxon House, 100 St Paul's Churchyard, London EC4M 8BU.

Directors' biographies

Henry Staunton

Chairman

Henry Staunton was appointed Chairman of the Board and Chairman of the Nomination Committee of PGH with effect from 1 September 2015. Mr Staunton is Non-Executive Chairman of WH Smith plc, the leading FTSE 250 retail group, and a Non-Executive Director of Capital & Counties Properties plc. From 2004 until 2013, Mr Staunton was a Non-Executive Director, Chairman of the Audit Committee and latterly Senior Independent Director and Vice Chairman of Legal & General Group plc, where he gained significant insight into the life and pensions industry. He was also a Non-Executive Director of Ashtead Group from 1997 to 2004 including as Chairman from 2001. During his executive career he was Finance Director of ITV plc from 2003 to 2006, and Finance Director of Granada plc from 1993 to 2003. Prior to that he joined Price Waterhouse as a graduate trainee, rising to become a Senior Partner of the audit practice.

Clive Bannister

Group Chief Executive Officer

Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer of PGH. Prior to this, Mr Bannister was Group Managing Director of Insurance and Asset Management at HSBC Holdings plc. He joined HSBC in 1994 and held various leadership roles in planning and strategy in the Investment Bank (USA) and was Group General Manager and CEO of HSBC Group Private Banking. He started his career at First National Bank of Boston and prior to working at HSBC was a partner in Booz Allen Hamilton in the Financial Services Practice providing strategic support to financial institutions including leading insurance companies, banks and investment banks. Mr Bannister is also Chairman of the Museum of London.

James McConville

Group Finance Director

James McConville was appointed to the Board as Group Finance Director with effect from 28 June 2012. Between April 2010 and December 2011, Mr McConville was Chief Financial Officer of Northern Rock plc. Prior to that, between 1988 and 2010, he worked for Lloyds Banking Group plc (formerly Lloyds TSB Group plc) in a number of senior finance and strategy related roles, latterly as Finance Director of Scottish Widows Group and Director of Finance for the Insurance and Investments Division. During 2011 and 2012, Mr McConville was a Non-Executive Director of the life businesses of Aegon UK. In 2014, Mr McConville joined the board of Tesco Personal Finance plc as a Non-Executive Director. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

Ian Cormack

Senior Independent Director

Ian Cormack was appointed to the Board with effect from 2 September 2009 and was appointed Senior Independent Director with effect from 1 October 2013. Mr Cormack is Non-Executive Chairman of Maven Income & Growth VCT 4 plc and a Non-Executive Director of Just Group plc and Hastings Insurance Holdings plc. Mr Cormack was Chief Executive Officer of AIG, Inc. in Europe from 2000 to 2002 and prior to that he spent 32 years at Citibank where he was Chairman of Citibank International plc and Co-Head of the Global Financial Institutions Client Group at Citigroup, and UK Country Head.

Alastair Barbour

Independent Non-Executive Director

Alastair Barbour has over 30 years of audit experience with KPMG where he worked across the full spectrum of financial services clients from large general insurers and reinsurers to the life assurance and investment management sector, working on a range of operational and strategic issues. Mr Barbour is the former Head of Financial Services, Scotland for KPMG. He retired from KPMG in 2011 to build a Non-Executive career. He is a Director and Audit Committee Chairman of RSA Insurance Group plc and Liontrust Asset Management plc (both London Stock Exchange-listed companies). He is also a Director and Audit Committee Chairman of CATCo Reinsurance Opportunities Fund Ltd, a Bermuda-based investment company listed on the London Stock Exchange and of The Bank of N. T. Butterfield & Son Limited, a group listed on the New York Stock Exchange and in Bermuda. Mr Barbour was appointed to the Board on 1 October 2013 and is Chairman of the Board Audit Committee and a member of the Board Nomination Committee and Board Risk Committee.

Karen Green

Independent Non-Executive Director

Karen Green is the former Chief Executive of Aspen UK, which comprised the UK insurance companies' global US-listed insurer and reinsurer, Aspen Insurance Holdings and was a member of the Aspen Group Executive Committee for 12 years. She also held a number of other senior positions including as Group Head of Corporate Development, Strategy, and Office of the Group CEO. She remains Deputy Chairman of Aspen Managing Agency Limited, which conducts Aspen's interests at Lloyd's of London and continues to act for the Aspen Group on a wide range of corporate development activities. Prior to that, she held various senior private equity and corporate finance roles from 1997 to 2005 at GE Capital and then MMC Capital, gaining substantial M&A experience, having worked previously at Baring Brothers and Schroders. Ms Green is a Council Member of Lloyd's of London. She is also a Vice President of the Insurance Institute of London. Ms Green was appointed to the Board with effect from 1 July 2017.

Wendy Mayall

Independent Non-Executive Director

Wendy Mayall has over thirty years of asset management experience, including as Group Chief Investment Officer and later consultant at Liverpool Victoria from 2012 to 2015, having previously been Chief Investment Officer for Unilever's UK pension fund from 1996 to 2011 and holding management responsibility for Unilever's pension funds globally. From 2006 to 2009, Mrs Mayall was the Chair of the Investment Committee of the Mineworkers Pension Scheme, a British government appointment to one of the largest government backed pension schemes in the UK. Mrs Mayall is a non-executive director of Aberdeen Global Funds (Luxembourg) and Old Mutual Wealth Oversight Council. She is also the Senior Independent Director and audit committee Chair of Fidelity Investments Life Insurance Company Limited and Chair of the Funding Committee for TPT Retirements Solutions. Mrs Mayall was appointed to the Board with effect from 1 September 2016.

John Pollock

Independent Non-Executive Director

John Pollock had a career in life assurance at the Legal & General Group from 1980 to 2015, including as an executive director of Legal & General Group plc from 2003 to 2015. Mr Pollock held numerous senior roles, gaining wide strategic and technical experience, finally as Chief Executive Officer of LGAS (L&G Assurance Society), one of Legal and Generals' three primary business units. Prior to Mr Pollock's retirement from Legal and General in 2015, he held positions as Deputy Chair of the FCA Practitioner Panel, Chairman of investment platform Cofunds, and as a non-executive director of the Cala Homes Group. Mr Pollock was appointed to the Board with effect from 1 September 2016.

Belinda Richards

Independent Non-Executive Director

Belinda Richards has held senior executive positions at KPMG, EY, and latterly Deloitte from 2000 to 2010 where she was a senior corporate finance Partner and the Global Head of Merger Integration and Separation Advisory Services. She is now an experienced non-executive director, currently on the Boards of WM Morrison Supermarkets plc, The Monks Investment Trust plc and Schroder Japan Growth Fund Plc. Previously, she has also been on the Boards of Aviva UK Life & Pensions, Grainger plc and Balfour Beatty plc. Ms Richards was appointed to the Board with effect from 1 October 2017.

Nicholas Shott

Independent Non-Executive Director

Nicholas Shott is an investment banker, who has been European Vice Chairman of Lazard since 2007 and Head of UK Investment Banking at Lazard since 2009. Mr Shott joined Lazard in 1991 and became a partner in 1997. He also serves as a non-executive director on the Board of the Home Office. Mr Shott was appointed to the Board with effect from 1 September 2016.

Kory Sorenson

Independent Non-Executive Director

Kory Sorenson is currently a Non-Executive Director and Chairman of the Audit Committee of SCOR SE, and a non-executive director of Pernod Ricard SA, a member of the Supervisory Board of UNIQA Insurance Group AG and a member of the Supervisory Board of the privately-owned Bank Gutmann AG. Ms Sorenson has over 25 years of experience in the financial services sector, most of which has been focused on insurance and banking. She was a non-executive director of Aviva Insurance Limited, Managing Director, Head of Insurance Capital Markets of Barclays Capital and also held senior positions in the financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. She began her career in the finance department of Total SA. Ms Sorenson was appointed to the Board of Directors with effect from 1 July 2014 and is Chairman of the Remuneration Committee and a member of the Board Audit Committee.

Conflicts of interest and other matters

PGH is not aware of any conflicts of interest between any duties owed by the Directors to PGH and their private interests or other duties.

Employees

The Group operates across four primary locations in Birmingham, London and Basingstoke, with the Sun Life distribution business based in Bristol. It had 1,249 employees as at 31 December 2017, of which 77 were considered to be "fixed term" employees with specified end dates. In addition, as at 31 December 2017, the Group employed approximately 35 contractors or temporary staff to cover flexible resource requirements.

The office in St Paul's, London is home to the Group's corporate functions and as of 31 December 2017 included 98 people across finance, actuarial, legal, tax and treasury, risk and corporate development. As of 31 December 2017, the office in Wythall, Birmingham included 689 people, all of the Phoenix Life Company functions across finance, actuarial, legal, tax, customer and operations, as well as the risk and compliance and human resource teams. As of 31 December 2017, the former AWL business in Basingstoke operated with 309 employees, whilst Sun Life in Bristol operated with 124 employees.

The following table shows the number of employees of the Group as at 31 December 2017, 31 December 2016 and 31 December 2015:

	Number of employees
As at 31 December 2017	1,249
As at 31 December 2016	1,305
As at 31 December 2015	742

The Group has collective consultation agreements in place with Unite, the largest United Kingdom trade union, covering certain categories of employees across Wythall, Basingstoke and Bristol sites.

Properties

In the United Kingdom, the Group primarily operates from leased office premises in London and Wythall and has other operations at premises owned by the Group in Basingstoke and Bournemouth and leased by the Group in Bristol. The Bournemouth site also provides accommodation to the outsourced service provider to ALAC (Capita Life and Pensions). In addition, the Group also has another site in Glasgow which it has provided primarily for the benefit of the Phoenix Life Companies' outsourced service providers in order to enable them to provide services to the Phoenix Life Companies' customers.

Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) (i) have been entered into by PGHC, PGH or another member of the Group within the two years immediately preceding the date hereof and are or may be material or (ii) have been entered into prior to such period and contain provisions under which a member of the Group has an obligation or entitlement which is material to the Group.

Standard Life Assurance Acquisition Agreements

PGH has entered or will enter into the following material contracts in relation to the Acquisition:

Share Purchase Agreement: On 23 February 2018, PGH (as buyer) and Standard Life Aberdeen (as seller) entered into the Share Purchase Agreement. Under its terms, and subject to certain conditions, the entire share capital of SLAL shall transfer to PGH. Under the terms of the Share Purchase Agreement, there may be an adjustment to the price paid by PGH in respect of the Acquisition under the Share Purchase Agreement (the "**Purchase Price Adjustment**").

Deed of Indemnity: On Completion, PGH, Standard Life Aberdeen and SLAL will enter into a deed of indemnity (the "**SLAL Deed of Indemnity**") with respect to certain liabilities arising out of the FCA-mandated, and Standard Life Aberdeen's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices.

Deed of Tax Covenant: On Completion, PGH and Standard Life Aberdeen will enter into a deed of tax covenant with respect to certain tax liabilities of Standard Life Assurance.

Transitional Services Agreement: On 23 February 2018, PGH and SLAL agreed the form of heads of terms for a transitional services agreement (the “**TSA Heads of Terms**”) to be entered into by SLAL, SLESL and SLAL Newco as soon as practicable pending finalisation and execution of the full-form document upon Completion (the “**Transitional Services Agreement**”). Under the TSA Heads of Terms, SLESL has agreed to continue to provide certain services or procure that certain services are provided to Standard Life Assurance and certain named third parties.

Client Service and Proposition Agreement: On 23 February 2018, PGH and SLAL agreed the form of heads of terms for a client service and proposition agreement to be entered into at Completion by SLAL, certain subsidiaries of SLAL and certain subsidiaries of Standard Life Aberdeen. SLAL will continue to manufacture, sell and develop workplace products, SIPP products and onshore bond products, and SLIDAC will continue to manufacture, sell and develop offshore bond products. These products will be offered by members of the Standard Life Aberdeen group via its retained platform businesses (for example, the Wrap SIPP).

Investment Management Agreement: Standard Life Investments Limited (“**SLI**”) was appointed in July 2006 to manage substantially all of Standard Life Assurance’s investment portfolio. Pursuant to the terms of the Share Purchase Agreement, PGH and Standard Life Aberdeen have agreed that Standard Life Aberdeen delivers at Completion, an amended and restated investment management agreement between SLAL and SLI (the “**Investment Management Agreement**”) on substantially the same terms as the investment management agreement in agreed form at the time of signing of the Share Purchase Agreement. Pursuant to the Investment Management Agreement, SLI would continue to serve as the investment manager of Standard Life Assurance’s investment portfolio.

Relationship Agreement: Standard Life Aberdeen and PGH have agreed the Relationship Agreement to be entered into upon Completion to govern Standard Life Aberdeen’s holding of Shares and the continuing relationship between the parties following Completion. Subject to certain exceptions, Standard Life Aberdeen has agreed to a 12-month lock-up and two year standstill following Completion (except in respect of its shares under management).

Trade Mark Licence Agreement: On 23 February 2018, PGH and Standard Life Aberdeen agreed the form of binding heads of terms for a trade mark licence (the “**TM Licence Heads of Terms**”) to be entered into by SLESL (as licensor) and SLAL (as licensee), which will be replaced by a long-form licence agreement at Completion (the “**Long Form Licence**”).

Abbey Life Sale and Purchase Agreement

On 28 September 2016, PLHL and PGH entered into a sale and purchase agreement (the “**Abbey Life SPA**”) with, among others, Deutsche Bank for the Abbey Life Acquisition.

PLHL has undertaken in the Abbey Life SPA to indemnify Deutsche Holdings No. 4 Ltd (“**Deutsche Holdings**”) and its group against any losses arising after completion of the Abbey Life Acquisition under the defined benefits pension scheme sponsored by ALAC, including losses resulting from the use of the statutory moral hazard powers of the Pensions Regulator against Deutsche Bank’s group to order money to be paid into that scheme. The indemnity is capped at £150 million and the potential powers of the Pensions Regulator are time limited by the periods set out in the Pensions Act 2004.

Deutsche Holdings has given an indemnity in favour of PLHL in respect of losses, liabilities or costs that ALAC or other target companies may incur relating to ALAC or another target company being treated as making unauthorised payments to certain members in respect of whom ALAC or another target company has a contractually vested annuity and was unable to trace at the time of the contractual vesting date, subject to

the limitations outlined below. For a description of certain other indemnities given by Deutsche Holdings in favour of PLHL, see “*Abbey Life Deed of Indemnity*” below.

Deutsche Holdings’ total liability in respect of all claims relating to the Abbey Life Acquisition by PLHL is not to exceed the net consideration paid to Deutsche Holdings. This includes claims pursuant to the tax covenant, core warranties (e.g., related to Deutsche Holdings’ title to the shares) and core covenants (e.g., related to transfer of the shares, Deutsche Holdings’ parental guarantee and pre-completion conduct) in the Abbey Life SPA. A sub cap of £320 million applies to other claims in relation to the Abbey Life Acquisition, including pursuant to non-core warranty claims and the Abbey Life Deed of Indemnity.

PGH has guaranteed PLHL’s obligations under the Abbey Life SPA so that if PLHL does not, or cannot, meet those obligations, then PGH has to meet them. Furthermore, Deutsche Holdings can bring a claim against PGH for failing to comply with its obligations under the guarantee.

Deutsche Bank has guaranteed Deutsche Holdings’ obligations under the Abbey Life SPA so that if Deutsche Holdings does not, or cannot, meet those obligations, then Deutsche Bank has to meet them. Furthermore, PLHL can bring a claim against Deutsche Bank for failing to comply with its obligations under the guarantee.

Abbey Life Deed of Indemnity

On 30 December 2016, Deutsche Holdings, Deutsche Bank, ALAC and PLHL entered into a deed of indemnity (the “**Abbey Life Deed of Indemnity**”). Under the Abbey Life Deed of Indemnity, Deutsche Holdings provided an indemnity to PLHL with respect to (i) the FCA’s investigation into ALAC’s fair treatment of longstanding customers between 1 December 2008 and 31 December 2015 resulting from the FCA’s thematic review (TR 16/2); and (ii) the issues arising from the FCA’s thematic review into annuity sales practices (TR 14/20).

Deutsche Holdings’ liability under the Abbey Life Deed of Indemnity is limited to £175 million. Deutsche Bank has guaranteed the due and punctual performance of Deutsche Holdings obligations under the Abbey Life Deed of Indemnity.

The Abbey Life Deed of Indemnity will expire six years from the date of the agreement (in respect of the longstanding customer investigation) and eight years from the date of the agreement (in respect of the annuity sales investigation). Deutsche Holdings also has certain other termination rights.

The Abbey Life Deed of Indemnity provides for risk sharing between Deutsche Holdings and PLHL. Subject to the liability limit of £175 million, Deutsche Holdings’ share in relation to the FCA’s long standing customer investigation is as follows:

- *Fines*: Deutsche Holdings is liable for 100 per cent. of all fines;
- *Customer redress*: Deutsche Holdings is liable for 60 per cent. of any amounts up to £10 million; 80 per cent. of any amounts in excess of £10 million and up to £30 million; and 90 per cent. of any amounts in excess of £30 million;
- *Professional fees*: Deutsche Holdings is liable for 80 per cent. of certain professional fees; and
- *Redress programme costs*: Deutsche Holdings is liable for 80 per cent. of certain redress programme costs.

The Deutsche Holdings’ share in relation to the annuity sales investigation is as follows:

- *Fines*: Deutsche Holdings is liable for 100 per cent. of all fines;
- *Customer redress*: Deutsche Holdings is liable for 90 per cent. of all amounts for customer redress;

- *Professional fees*: Deutsche Holdings is liable for 80 per cent. of certain professional fees; and
- *Redress programme costs*: Deutsche Holdings is liable for 80 per cent. of certain redress programme costs.

The parties will set up a monitoring committee which will consist of representatives from Deutsche Holdings, Deutsche Bank, PLHL and ALAC. The monitoring committee will oversee the management of costs, assist Deutsche Holdings in monitoring its liability and assist with setting up any redress programmes. ALAC is obligated to provide periodic updates, correspondence and other materials under the FCA investigations to the monitoring committee.

Revolving Credit Agreement

PGH (as guarantor and, from 28 February 2017, as borrower) PGH Capital (as borrower) and Commerzbank Finance & Covered Bond S.A. (formerly known as Commerzbank International S.A.) (as agent), among others, are party to the Revolving Credit Agreement.

Under the Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility in an aggregate principal amount equal to £900 million.

As a result of the amendment and restatement in March 2016 the Revolving Credit Agreement became a £650 million unsecured revolving credit facility, maturing in June 2020. On 9 November 2016, the Revolving Credit Agreement was fully repaid before being drawn down again on 28 December 2016. On the same date the Group drew down a further £250 million tranche of this facility to finance part of the Abbey Life Acquisition, again increasing borrowing under the Revolving Credit Agreement to £900 million. On 29 December 2016, £50 million of the Revolving Credit Agreement was repaid. As at the date of this Prospectus, the £900 million facility is fully undrawn.

The final maturity date of the facility under the Revolving Credit Agreement is 30 June 2022, following the exercise of two extension options, with the first being effective on 30 March 2017 and the second being effective on 27 February 2018. There are no mandatory or target amortisation payments associated with the facility (but the facility is subject to customary event-driven mandatory prepayment obligations) and the current applicable interest rate would be LIBOR plus 1.10 per cent., with the margin linked to the credit rating of PGH.

Backstop Revolving Credit Agreement

The Revolving Credit Agreement does not permit the Acquisition. Accordingly, PGH (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, entered into the Backstop Revolving Credit Agreement. Under the Backstop Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million. The terms of the Backstop Revolving Credit Agreement closely mirror the terms of the Revolving Credit Agreement save that (among other matters) the Backstop Revolving Credit Agreement permits the Acquisition (and certain other factors relating to the Acquisition) and one of the conditions to the drawdown of loans under the Backstop Revolving Credit Agreement is the cancellation in full of the Revolving Credit Agreement.

The final maturity date of the facility under the Backstop Revolving Credit Agreement is 30 June 2022. There are no mandatory or target amortisation payments associated with the facility (but the facility is subject to customary event-driven mandatory prepayment obligations) and the current applicable interest rate would be LIBOR plus 1.10 per cent., with the margin linked to the credit rating of PGH.

It is intended that the lenders under the Revolving Credit Agreement will be asked to give their consent to the Acquisition (and certain other matters relating to the Acquisition). If the requisite majority of lenders give

their consent, it is intended that the Backstop Revolving Credit Agreement will be cancelled. If the requisite majority of lenders under the Revolving Credit Agreement do not give their consent, it is intended that the Revolving Credit Agreement will be cancelled (and the Backstop Revolving Credit Agreement will be available for utilisation in its place).

Acquisition Facility Agreement

PGH (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, are party to the Acquisition Facility Agreement. Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million.

The final maturity date of the facility under the Acquisition Facility Agreement is twelve months after Completion. PGH is entitled to request two six-month extensions to the term of the facility (which would together extend the maturity date to 24 months after Completion). Each such six-month extension option is conditional only on there being no continuing event of default.

There are no mandatory or target amortisation payments associated with the facility, but the facility is subject to customary event-driven mandatory prepayment obligations, including an obligation to repay the facility from the net cash proceeds of any debt issued by PGH in the debt capital markets, subject to certain exceptions. The applicable interest for the first six-month period following Completion will be LIBOR plus 0.50 per cent., with the applicable margin increasing on each six-month anniversary of Completion.

The Pearl Scheme Agreements

On 27 November 2012, PGH2 entered into the 2012 Pensions Agreement, which replaces a previous funding agreement dated 26 June 2009.

Under the 2012 Pensions Agreement PGH2 will make certain specific payments to the Pearl Scheme. The first contribution of £72 million was paid in September 2013, the second contribution of £68 million was paid on 30 September 2014 and two further contributions of £40 million each were paid on 30 September 2015 and 30 September 2016. The remaining payments are £40 million to the scheme on 30 September of each year from 2017 until 2021, although it was agreed in June 2017 that future contributions will be paid on a monthly basis. These contributions can be increased and further contributions may become payable after 2021 in certain circumstances under the 2012 Pensions Agreement if the scheme is not anticipated to meet two agreed funding targets. The funding targets are to reach full funding on the technical provisions basis by 30 June 2022 and to reach full funding on a gilts flat basis by 30 June 2031.

There is a sharing mechanism that, in certain circumstances, allows for an acceleration of the contributions to be paid to the Pearl Scheme. This mechanism shall cease to apply if the trustees cease to follow a new investment strategy, which is a lower risk investment strategy than the previous investment strategy.

For the purposes of the 2012 Pensions Agreement, the “**Gilts Based Deficit**” is the scheme deficit calculation on a basis linked to United Kingdom government securities.

Charges over the shares of PLAL, PGS and PGS2 Limited that were granted to the trustee of the Pearl Scheme under the predecessor of the 2012 Pensions Agreement remain in place. The value of the security claim guaranteed under the share charges is the lower of the £600 million and 100 per cent. of the Gilts Based Deficit revalued every three years. The trustee will be entitled to enforce its security under these share charges if PGH2 fails to comply with certain provisions under the 2012 Pensions Agreement including, without limitation to pay amounts when due, if the ratio of the embedded value of PGH2 to the value of the security claim falls below 1.05:1 for two months and is not cured, and customary events in connection with such security documents. Enforcement action by the trustee of the Pearl Scheme would be an event of default

under the Revolving Credit Agreement the Backstop Revolving Credit Agreement and the Acquisition Facility Agreement. The security charges also include certain restrictions on transfer, including to other parts of the Group.

PGH2 has agreed to maintain two covenant tests. If these tests are not met, restrictions on dividend payments by PGH2 will apply. These covenant tests require that PGH2's embedded value will be maintained at the greater of:

- (a) 1.3 times the lower of £600 million and 60 per cent. of the Gilts Based Deficit; and
- (b) the Gilts Based Deficit less 50 per cent. of the projected investment outperformance over gilts to 2031. PGH2 is restricted from paying dividends if its embedded value falls below the Gilts Based Deficit.

The agreement reached in the 2012 Pensions Agreement is subject to the statutory funding regime in the Pensions Act 2004.

For further information on the Pearl Scheme, see "*Information on the Group - Pensions*".

The PGL Pension Scheme Guarantees

PeLHL has guaranteed to the trustees of the PGL Pension Scheme the obligations and liabilities of the participating employers to make payments to the PGL Pension Scheme. As at 31 December 2017, no further contributions are due to be paid into the scheme. The performance of PeLHL under the guarantee has been guaranteed by PGH1.

For further information on the PGL Pension Scheme, see "*Information on the Group - Pensions*".

Abbey Life Pension Scheme

In June 2013, Abbey Life set up the 2013 Charged Account into which payments were made under a funding agreement with the Trustees. In June 2017, PeLHL agreed a new funding agreement with the Trustees under which the following deficit reduction payments will be due:

- an initial payment of £25 million in July 2017 with monthly contributions of £400,000 between 1 July 2017 and 30 June 2026;
- if the scheme shows a deficit on a defined technical provisions basis as at 31 March 2021, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in the 2013 Charged Account; and
- a payment of £4 million by 31 July each year from 2017 to 2025 into the 2016 Charged Account. If the scheme shows a deficit on a defined technical provisions basis as at 31 March 2027, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in this second escrow account.

The 2013 Charged Account and the 2016 Charged Account contained a combined £44.8 million as at 31 December 2017.

The agreement reached by PeLHL with the Trustees is subject to the statutory funding regime in the Pensions Act 2004.

For further information on the Abbey Life Pension Scheme, see "*Information on the Group – Pensions*".

For further information on the Group's outstanding debt instruments, see "*Information on the Group – Description of indebtedness*".

Annuity business transfer agreements

PLL, PLAL and National Provident Life Limited ("**NPLL**") entered into an annuity business transfer agreement with Guardian Assurance Limited on 26 June 2012 and PLL entered into a further agreement with

Guardian on 31 July 2014, which was amended on 23 August 2016. Following on from these agreements, annuities written within PLL, PLAL and NPLL have been transferred outside the group under two Court-sanctioned schemes under Part VII of FSMA.

PLAL and PLL retain responsibility for any mis-selling liability in connection with the original sale of the transferred policies.

AXA Sale and Purchase Agreement

On 27 May 2016, PGH and PLHL entered into the AXA SPA with AXA UK for the acquisition of the SunLife Embassy Business. PGH has guaranteed the obligations of PLHL under the AXA SPA. The acquisition completed on 1 November 2016 for £373 million in cash.

Under the terms of the AXA SPA, AXA UK has given certain warranties and indemnities to PLHL and PLHL has given certain limited warranties to AXA UK, all of which are generally typical for transactions in the pensions and protection business.

AXA Transitional Service Agreement

A transitional services agreement was executed between: (i) Winterthur Life UK Holdings Limited (now Phoenix Wealth Holdings Limited); (ii) AXA Sun Life Direct Limited (now Phoenix SL Direct Limited) (together, the “**SunLife Embassy Companies**”); (iii) AXA UK; and (iv) AXA Portfolio Services Limited (now Elevate Portfolio Services Limited) (“**APS**”). AXA UK is the main service provider under this transitional services agreement. However, limited services are provided to the SunLife Embassy Companies from APS and to APS from the SunLife Embassy Companies.

Services will be provided for up to two years, subject to the rights of the parties to terminate early in certain circumstances. Services are being reduced and/or terminated as the SunLife Embassy Companies are integrated into PGH’s business.

The services to be provided by AXA UK to the SunLife Embassy Companies include provision of various IT and operational services, certain product tools, corporate tax and VAT support, HR services, back office processing, accounting/reporting and facilities management services. The services to be provided by the SunLife Embassy Companies to APS relate to limited IT support services. The services to be provided by APS to the SunLife Embassy Companies relate to the provision of certain product tools and services.

Contracts relating to the Divestment of Ignis Asset Management

On 25 March 2014, the Group agreed to dispose of the entire issued share capital of Ignis Asset Management to Standard Life Investments, in return for total consideration of £390 million which was paid in cash upon completion of the divestment. Completion of the divestment occurred on 1 July 2014. A payment of £6 million was made to Standard Life on 24 September 2014 in relation to certain contractual balance sheet adjustments which could not be calculated until after closing.

As part of the divestment, Impala agreed to a purchase price adjustment in the event that assets held by the Phoenix Life Companies are withdrawn from management by Ignis Asset Management, other than for specific reasons such as poor investment performance or for material breaches of the existing Investment Management Agreements between the Phoenix Life Companies (and Opal Reassurance Limited) and Standard Life Investments (formerly Ignis Investment Services Limited). A purchase price adjustment can only be triggered as a result of a decision by the relevant member of the Group to withdraw assets from management by Ignis Asset Management. PGH has also guaranteed Impala’s obligations in connection with the divestment, including indemnities given by Impala to Standard Life Investments and Impala’s obligations in respect of any purchase price adjustment.

The existing investment management agreements between certain of the Phoenix Life Companies (and Opal Reassurance Limited) and Ignis Asset Management remain in force following the divestment. This includes the existing fee arrangements remaining broadly the same and the notice periods for withdrawal of assets without cause remaining generally on a three year rolling basis. Under the agreement dated 25 March 2014 between PGH, Impala and Standard Life Investments relating to the divestment of Ignis Asset Management, Impala has agreed to a purchase price adjustment for a period of 10 years if a Phoenix Life Company withdraws assets from management by Ignis Asset Management or any of its subsidiaries under an Investment Management Agreement, subject to certain exceptions. The Impala purchase price adjustment is effectively absorbed within the Purchase Price Adjustment entered into in connection with the Acquisition.

This price adjustment mechanism is calculated on the basis of the base management fees that would have been payable under the relevant Investment Management Agreement, assuming the assets had not been withdrawn and taking into account the expected run off profile of the relevant assets. No purchase price adjustment shall be payable in respect of any other fees or costs including performance fees and stock lending fees. For each of the last five years of the price adjustment period, the purchase price adjustment payable will be discounted at a rate of 50 per cent. The purchase price adjustment is net of a notional corporation tax amount determined in accordance with the terms of the divestment.

A purchase price adjustment is not payable in certain circumstances, including if the assets are withdrawn due to investment underperformance or a material breach of the Investment Management Agreement by the relevant asset manager. In addition, if any of the Phoenix Life Companies terminates an Investment Management Agreement on contractual notice, then no purchase price adjustment is payable in respect of the relevant notice period, but a purchase price adjustment would continue to apply in respect of the period between the end of such notice period and the end of the price adjustment period. If Completion occurs, this arrangement will be subsumed into the Purchase Price Adjustment.

Santander Reinsurance

In 2012, ALAC reinsured 100 per cent. of a life portfolio written by a Spanish subsidiary and a Portuguese subsidiary of Grupo Santander. This entitles ALAC to be paid the premiums, and to pay claims, under policies which are part of the portfolio.

ALAC paid a single upfront payment as reinsurance commission to the Grupo Santander subsidiaries. The funding for the single upfront payment was provided to ALAC by a reinsurance with Axia. It is anticipated that over time the value of this payment will be paid back by ALAC to Axia out of the surplus arising from the portfolio.

Where the value of the premiums paid to ALAC does not exceed the value of the claims due by more than a certain amount, then a third party reinsurer (the “**retrocessionaire**”) provides an additional contribution so that ALAC can meet its obligations to the Grupo Santander companies and can pay Axia. Where the value of the premiums paid to ALAC exceeds the value of the claims due by more than a certain amount, the retrocessionaire is paid some of that surplus, while the remainder is used to pay Axia. In each case, ALAC will retain a fixed profile of payments and only has to make onward payments when it is provided with matching funds by the relevant counterparty.

Once Axia has been paid back it is expected that at that time the reinsurance with Grupo Santander will be transferred to the retrocessionaire and ALAC’s participation will cease.

Cashflow swap with Deutsche Bank in relation to the de-risking transaction with the Rolls Royce and Bentley pensions scheme

On 25 March 2013, ALAC entered into a de-risking transaction with the trustee of the Rolls Royce and Bentley pensions scheme, Rolls Royce & Bentley Pensions Fund Trustee Limited. Under the terms of this

arrangement the trustee pays ALAC a fixed profile of payments and in return ALAC pays the trustee a series of cashflows representing the benefits payable by the trustee to certain beneficiaries of the Rolls Royce and Bentley pensions scheme. A proportion of the fixed profile of payments is then passed to certain reinsurers. In return the reinsurers provide ALAC with the funds to meet a proportion of its obligations under ALAC's contract with the trustee. These type of arrangements are of the type carried out by ALAC with other pension scheme trustees. However, the timing of the cashflows into ALAC do not match the timing of the cashflows out of ALAC prescribed under the various agreements. In other words, there is a mismatch between the timing of ALAC's payment obligations under the reinsurance arrangements and the times it is provided with matching funds by the relevant counterparty to meet its obligations under the contract with the trustee. To address the cashflow mismatch, and to prevent ALAC having to hold significant additional liquidity to address the cashflow issue, ALAC entered into a cashflow swap with Deutsche Bank.

The key terms of the cashflow swap are as follows:

- Deutsche Bank will provide payments so that ALAC can meet its obligations under the combined de-risking transaction and related reinsurance arrangements; and
- ALAC has to provide collateral to Deutsche Bank in respect of certain risks.

It is intended that the cashflow swap will remain in place for the length of the Rolls Royce and Bentley pensions scheme de-risking transaction.

THE ACQUISITION

Overview

Acquisition of Standard Life Assurance

On 23 February 2018, PGH announced the proposed acquisition of Standard Life Assurance Limited (to include Veбnet (Holdings) Limited and exclude certain subsidiaries of SLAL following a pre-Completion restructuring) for a total consideration of £2,930m (subject to adjustment), and the extension and significant enhancement of the existing long-term strategic partnership between PGH and Standard Life Aberdeen. The acquisition encompasses all of SLAL's UK and European life insurance business.

Reasons for the Acquisition

PGH believes the Acquisition and enhanced partnership with Standard Life Aberdeen will deliver the following strategic and financial benefits to the Group:

- **Underpin the Group as the pre-eminent closed life fund consolidator in Europe:** The Acquisition creates an enlarged Group with £240 billion of legacy assets and 10.4 million policyholders. This greater scale and alignment with the Group's existing product mix strengthens the Group's capacity to generate shareholder value through the delivery of management actions and future accretive acquisitions.
- **Materially enhances the Group's cashflows over time:** The Acquisition is expected to generate a total of £5.5 billion of additional aggregate cashflows, of which £1.0 billion is expected to be generated between 2018 and 2022 and £4.5 billion from 2023 onwards.
- **Delivers an increased dividend with enhanced sustainability:** The additional cash generation supports a proposed increase in the annualised cost of the dividend to £338 million from the date of the 2018 final dividend.
- **Significant potential for cost and capital synergies:** The integration of Standard Life Assurance is expected to create total net synergies of £720 million, including recurring pre-tax cost savings of £50 million per annum, valued at £415 million¹, and non-recurring net capital synergies of £440 million, less post-tax integration costs of £135 million.
- **Attractive transaction pricing:** The total consideration payable of £2,930 million (based in part on the implied value of Standard Life Aberdeen's approximately 19.99 per cent. stake in the Enlarged Group following Completion as at 22 February 2018) represents 84 per cent. of Standard Life Assurance's estimated Solvency II Own Funds² of £3.5 billion as at 31 December 2017 (on a

¹ Total net synergies of £720 million consist of capital synergies of £440 million, and cost synergies valued at £415 million (calculated as after tax annual synergies capitalised over 10 years), after deducting post-tax integration costs of £135 million.

² Solvency II Own Funds, SCR and the Shareholder Capital Coverage Ratio exclude amounts relating to unsupported with-profits and, for Phoenix, the PGL Pension Scheme. In addition, the Standard Life Assurance Own Funds and SCR are stated after pre-Completion adjustments comprising payment of a dividend to Standard Life Aberdeen, repayment of capital qualifying subordinated debt and the expected treatment of certain pension schemes. In addition, the Standard Life Assurance Own Funds have been adjusted to reflect acquisition adjustments comprising the additional VAT liability that arises post-Completion in respect of investment management fees and the transaction costs incurred by PGH in connection with the Acquisition and associated financing. For further detail on these adjustments, see the section of this Prospectus entitled "Unaudited Pro Forma Solvency Information of the Enlarged Group". The Solvency II Surplus of the Enlarged Group assumes £600 million of additional hybrid debt and is subject to regulatory approval of the Internal Model treatment.

shareholder capital basis).³ This ratio compares favourably with 85 per cent. and 89 per cent. of Solvency II Own Funds that were paid for the recent acquisitions of AXA Wealth and Abbey Life, respectively.

- **Efficient financing structure:** The total consideration of £2,930 million (based in part on the implied value of Standard Life Aberdeen's approximately 19.99 per cent. stake in the Enlarged Group following Completion as at 22 February 2018) will be financed through: (i) a cash consideration of £1,971 million, and (ii) the issuance to Standard Life Aberdeen of Shares representing approximately 19.99 per cent. of the enlarged share capital following Completion. The Group proposes to fund the cash consideration using the net proceeds of the Rights Issue, with the remaining cash consideration financed from up to £1,500 million of underwritten debt facilities and up to £250 million of own cash resources. The proposed financing structure is expected to maintain the Group's Fitch leverage ratio within the Group's target range of 25 to 30 per cent.
- **Maintains balance sheet strength:** The Group's estimated Solvency II Surplus as at 31 December 2017 is expected to increase from £1.8 billion to £2.5 billion on a pro forma basis³, the Shareholder Capital Coverage Ratio³ is estimated to be 147 per cent. and the regulatory coverage ratio is estimated to be 132 per cent. The surplus will increase by £0.3 billion following the equity hedging planned at Completion, resulting in an increase in the Shareholder Capital Coverage Ratio of 9 per cent. and an increase in the regulatory coverage ratio of 6 per cent.
- **Organic future growth in assets from Client Service and Proposition Agreement:** The reinforced strategic partnership includes a Client Service and Proposition Agreement enabling the Group to manufacture and provide policy administration for workplace pension, onshore and offshore bonds, retail SIPP and drawdown products.
- **Optionality for future European expansion, with a potential £160 billion market opportunity in Germany and Ireland:** In acquiring an established business footprint in Germany and Ireland, the Acquisition increases the Group's potential market from approximately £380 billion of closed life fund assets in the UK to approximately £540 billion of assets across the UK, Germany and Ireland.

Further Details on the Financial Impact of the Acquisition

The Acquisition will bring to the Group an additional £166 billion of assets and approximately 4.8 million policyholders, based on Standard Life Assurance's position as at 31 December 2017. This will result in an increase in the Group's existing assets to £240 billion and a total of 10.4 million policyholders.

On 23 February 2018, PGH announced a new standalone cash generation target, excluding the impact of the Acquisition, of £2.5 billion for the years 2018 to 2022, with a further £3.8 billion of cash generation expected from 2023 onwards. Including Standard Life Assurance, the Group's aggregate cash generation from in-force business, after implementing certain management actions, is expected to be £11.8 billion, of which £3.5 billion is expected for the years 2018 to 2022 with a further £8.3 billion expected from 2023 onwards. Furthermore, the Group anticipates incremental value from future new business arising under the Client Service and Proposition Agreement for the workplace pension, onshore and offshore bonds, SIPP and drawdown products of Standard Life Assurance in the UK, Ireland and Germany.

³ The consideration for the Acquisition is stated following the deduction of a pre-Completion dividend to Standard Life Aberdeen of £312 million. In the event that the Acquisition completes after Phoenix's 2018 interim dividend ex-dividend date, there will be an additional payment of the amount of the dividend that Standard Life Aberdeen would otherwise have received had it been on the Issuer's shareholder register at the relevant period.

The Acquisition is expected to result in recurring pre-tax cost savings of £50 million per annum, which when capitalised over 10 years are valued at £415 million on a post-tax basis. The separation and transition process is expected to take over three to four years from Completion, with approximately 30 per cent. of the benefit achieved by mid-2020 and the remainder by the end of 2021. In the short term, £15 million of the reduction in annualised operating expenses is as a result of efficiencies gained from the combination of life company management and support functions, with the remaining £35 million of the reduction due to the leveraging of other aspects of PGH's operating model. This expected cost saving is compared with the net operating expenses of Standard Life Assurance of £336 million for the year ended 31 December 2017. The Acquisition is also expected to create non-recurring net capital synergies of £440 million as a result of the hedging of unit linked value-in-force business and the application of the Group's strategic asset allocation across the enlarged annuity portfolio by the end of 2020. As at the date of announcement of the Acquisition, the Directors expect to incur one-time post-tax expenditure of approximately £135 million to complete the integration and deliver the cost savings referred to above. The Directors believe that the estimated synergies set out above (which may be subject to the prior approval of the PRA) could not be achieved without Completion. The estimated synergies set out above reflect both the beneficial elements and relevant costs.

The Group's estimated Solvency II Own Funds are expected to increase to £7.8 billion as at 31 December 2017, with the Group's SCR expected to increase to £5.3 billion (both on a shareholder capital basis). The estimated Solvency II Surplus as at 31 December 2017 is expected to increase from £1.8 billion to £2.5 billion, with the Shareholder Capital Coverage Ratio reducing from 164 per cent. to 147 per cent. Phoenix has implemented hedging strategies to protect its capital position in line with the Group's existing market risk policies from the date of announcement of the Acquisition, which is expected to support the resilience of the Group's Solvency II capital sensitivities. In particular, the equity hedging planned at Completion will improve the capital position by £0.3 billion and Shareholder Capital Coverage Ratio by 9 per cent. based on the pro forma position as at 31 December 2017.

Further information on the expected pro forma impact of the Acquisition and associated financing on the consolidated income statement and consolidated balance sheet of the Enlarged Group is set out in "*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*" and "*Unaudited Pro Forma Solvency Information of the Enlarged Group*". The financial and other benefits set out above are contingent on the Acquisition completing and could not be achieved independently.

INFORMATION ON STANDARD LIFE ASSURANCE

Business overview

Standard Life Assurance will include the majority of Standard Life Aberdeen's United Kingdom and European life insurance business but will not include Standard Life Aberdeen's United Kingdom retail platforms and advice business. Standard Life Assurance is a leading provider of long-term savings and investment propositions. It is primarily based in the United Kingdom, with further operations through branches in Ireland and Germany. Its main aim is to help people manage their money today and save for their future. As at 31 December 2017, Standard Life Assurance had approximately 4.8 million policyholders and £166 billion of assets under administration (approximately 25 per cent. of Standard Life Aberdeen's total AUA).

Standard Life Assurance comprises the following significant entities, all of which are 100 per cent. owned (directly or indirectly) by Standard Life Aberdeen:

- *Standard Life Assurance Limited*: SLAL provides life assurance and pension products in the United Kingdom, Ireland and Germany, with the business written in Ireland and Germany through branches.
- *Standard Life Pension Funds Limited*: SLPF transacts pension fund business in the United Kingdom and provides management services for pension funds in the United Kingdom and Ireland.
- *Standard Life International Designated Activity Company*: SLIDAC sells offshore unit-linked investment bonds to customer in the United Kingdom and, following a Part VII transfer, it is intended that SLIDAC will administer all policies relating to customers situated in the European Union (but not the UK).
- *Vebnet Limited*: Vebnet Limited develops and distributes technology for the management and administration of employee benefits (FIX&FLEX®) and provides management services.

PGH intends to apply a disciplined approach to the separation and transition of Standard Life Assurance and that will leverage its existing skills and experience in delivering an effective operating model which continues to focus on strong risk management, leading governance and financial restructuring, all delivered by skilled and experienced teams in both PGH and Standard Life Assurance. In addition, PGH will build on the strong capabilities in Standard Life Assurance to support new business expected to be manufactured through the strategic partnership. PGH expects that the separation and transition of Standard Life Assurance will take over three to four years from Completion.

Under the terms of the Transitional Services Agreement customary transitional services will be provided by Standard Life Aberdeen for a limited duration post-Completion. Other services which are more directly related to life assurance, such as certain collateral, custody and investment management services, are expected to be provided on an ongoing basis by Standard Life Aberdeen as part of its strategic partnership with PGH. The contractual terms on which certain of those services are provided are expected to be amended to be provided on an arm's length basis.

Standard Life Assurance had estimated Solvency II Own Funds of £3.5 billion and SCR of £2.5 billion as at 31 December 2017 (both on a shareholder capital basis). The estimated Solvency II Surplus of Standard Life Assurance as at 31 December 2017 was £1.0 billion, with a Shareholder Capital Coverage Ratio of 143 per cent. Solvency II Own Funds, SCR and the Shareholder Capital Coverage Ratio of Standard Life Assurance exclude amounts relating to unsupported with-profits. In addition, the Standard Life Assurance Own Funds and SCR are stated after pre-Completion adjustments comprising payment of a dividend to Standard Life Aberdeen, repayment of capital qualifying subordinated debt and the expected treatment of certain pension

schemes. The Standard Life Assurance Own Funds have also been adjusted to reflect acquisition adjustments comprising the additional VAT liability that arises post-Completion in respect of investment management fees and the transaction costs incurred by PGH in connection with the Acquisition and associated financing. For further detail on these adjustments, see the section of this Prospectus entitled (“*Unaudited Pro Forma Solvency Information of the Enlarged Group*”).

Products and distribution

In the United Kingdom, Standard Life Assurance’s products and services are offered through two main channels:

- *Retail*: pensions and savings where the relationship is either directly with the customer, or with their financial adviser; and
- *Workplace*: pensions, savings and flexible benefits to employees through their employers.

Workplace distribution is via employers and their advisers. Workplace business is primarily corporate pensions. Since auto-enrolment began in 2012, Standard Life Assurance has supported 10,000 employers to set up qualifying workplace pension schemes, with 1.1 million members enrolled into these schemes.

Standard Life Assurance’s European business comprises operations in Ireland and Germany, where Standard Life Assurance offers savings and investment products to a variety of customers and clients. Distribution of products in Ireland and Germany is primarily via brokers and advisers.

Standard Life Assurance’s business also includes businesses that specialise in financial advice and risk and compliance services. The financial advice business, branded “1825”, was launched in 2015 and offers a full financial planning and personal tax advice service. By the end of 2017, the acquisition of four adviser firms had been completed.

Standard Life Assurance’s business includes a range of products which are categorised as either fee-based or spread/risk business. In 2017, 84 per cent. of Standard Life Assurance’s total operating income was fee-based.

- *Fee-based business*: The fee-based business is made up of products where revenue is generated primarily from annual management charges (“AMCs”), and ad-valorem-based charges. AMCs are earned on products such as self-invested personal pensions, drawdown products, individual savings accounts and corporate pensions, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the shareholder’s major indirect exposure to rising or falling markets coming from higher or lower AMCs. Fee business includes unit-linked and with-profits business. A unit-linked policy is one where the benefits are determined by reference to a specified pool of assets. A with-profit policy is one where, in addition to guaranteed benefits specified in the policy, additional bonuses may also be payable depending on the performance of the assets in the with-profits fund. With-profits business was predominantly written before the demutualisation of Standard Life.
- *Spread/risk business*: Spread-based business consists of annuities and risk-based business consists of protection products. The spread/risk business mainly comprises annuities where a guaranteed level of income is provided to customers in return for an investment. The ‘spread’ primarily relates to the difference between the guaranteed amount paid to customers and the actual return on related assets over the period of the contract. Annuity sales fell dramatically in 2014 in anticipation of pension freedoms and, since 2015, Standard Life Assurance’s customers are now pointed towards an open market annuity panel. Very low volumes of Standard Life Assurance’s annuities are sold to customers with maturing guaranteed benefit options (GAOs/GMPs) and to customers who are unable or not willing to purchase an open market annuity.

Principal markets

Standard Life Assurance's business is primarily based in the United Kingdom, with operations also in Ireland and Germany. Standard Life Assurance's total operating profit before tax for the year ended 31 December 2017 was £366 million, which consisted of £319 million from the United Kingdom and £47 million from Ireland and Germany.

Standard Life Assurance's business can be subdivided into the following "blocks":

Business segment	AUA⁴ at 31 December 2017	Description
United Kingdom Mature and Spread/Risk Business	£55.7 billion	<p>The United Kingdom mature and spread/risk business forms the majority of Standard Life Assurance's closed business in the United Kingdom. It consists of conventional with-profits business, annuity business, pensions, legacy life bonds and protection business, totalling approximately 1.4 million policies (of which annuity policies are approximately 500,000), as well as non-product assets.</p> <p>Standard Life Assurance's United Kingdom mature and spread/risk business comprises long-standing retail pensions and savings customers with products that are not part of Standard Life Assurance's current market offering. Most customers came to Standard Life Assurance more than 15 years ago, either directly, through an adviser or via a previous employer. The business is expected to see modest net outflows as it matures, with run-off periods ranging from 10 to 30 years.</p>
Workplace Business	£40.2 billion	<p>United Kingdom workplace customers are members of their workplace pension scheme through one of Standard Life Assurance's product propositions, which include modern group pension products as well as legacy group pension products. The assets under management are split roughly equally between modern and legacy products at approximately £19 billion and £21 billion, respectively.</p> <p>Standard Life Assurance's workplace pensions offering provides a market leading investment solution to employers in the United Kingdom and has 1.8 million employee members in total. Product capabilities include online scheme set up and management, United Kingdom based phone support and employee engagement support.</p>
United Kingdom Retail Business	£46.2 billion	<p>United Kingdom retail business consists primarily of pensions products sold through independent financial advisers, or through "non-advised" channels including via platforms.</p> <p>The United Kingdom retail business is one of the United Kingdom's largest individual pensions providers, with a market-</p>

⁴ Assets under administration

Business segment	AUA ⁴ at 31 December 2017	Description
European Business	£23.7 billion	<p>leading position in insured SIPPs. It includes approximately £22 billion total AUA in retail SIPPs and £21 billion total AUA in Wrap SIPPs as at 31 December 2017.</p> <p>Integration with Wrap platform provides access to an extensive range of investment options from Aberdeen Standard Investments and external investment managers.</p> <p>Standard Life Assurance's European business comprises the following segments:</p> <ul style="list-style-type: none"> • German closed book with-profits business and unit-linked products in Germany (approximately £11.2 billion) <p>Standard Life Assurance's branch in Germany was established in 1996 and extended sales into Austria in 1997. The unit comprises a large closed book as well as a smaller book of open business with a total of 500,000 policies. All business is written in the German branch of Standard Life Assurance and sales are through financial advisers. The run-off profile of the closed book business is very long and is enhanced by significant and on-going level of inflows from existing customers. Assets are forecast to be around current levels for several years before starting to reduce. Moreover, many customers will convert their policy proceeds to an annuity, adding further to the length of the run-off profile.</p> <ul style="list-style-type: none"> • Legacy products in Ireland and modern products for the Irish domestic market (approximately £6.2 billion) <p>Standard Life Assurance's branch in Ireland was established in 1834 and has enabled domestic Irish customers to save for their future financial needs, secure an income in retirement and provide financial security for their dependents for many years. Its growth and development closely followed that of the United Kingdom business for many years, but for the past 10 years the more traditional adviser market has remained the focus in Ireland. The Irish branch has approximately 90,000 policies in total.</p> <ul style="list-style-type: none"> • Offshore bonds distributed in the United Kingdom via independent financial advisers (approximately £6.3 billion) <p>Single premium bond business for United Kingdom customers looking to access an offshore investment vehicle beyond those available in the United Kingdom. The business comprises approximately 19,700 policies with an average size of approximately £300,000.</p>

Recent trends and results of operations

Standard Life Assurance's UK markets have seen a number of significant changes over a relatively short period of time. These have had the impact of changing the business environment and accelerating the need for business models to evolve to meet current and future client needs. Some notable examples of these changes to the market are detailed below.

Auto-enrolment

Auto-enrolment has fundamentally changed the way people save for their retirement. The UK Government introduced auto-enrolment in 2012 in part to help close the gap between what individuals need to save for their retirement and the amount of money they were currently setting aside. Auto-enrolment requires employers to provide pension schemes to all employees, on an opt-out basis, and by the end of May 2018 there will be ten million employees enrolled across the UK. In addition, from April this year the minimum required contributions will increase.

Pensions Freedom

The Government announced in the 2014 budget to start in the 2015/16 tax year the removal of the need to use pension savings to buy an annuity. This entailed that anyone aged 55 and over had access to their whole pensions savings and could use it as they wanted (e.g., take the whole amount as a lump sum, paying no tax on the first 25 per cent. and the rest taxed as if it were a salary at their income tax rate). This led to a dramatic reduction in the market for annuities and a corresponding increase in customers drawing down a proportion of their pension savings in some form.

Historically, it had been very unappealing for certain individuals to leave a defined benefit scheme but the rule changes associated with pensions freedoms coincided with historically low gilt yields, which had a significant effect on the transfer values for defined benefit pensions. This has made transferring from a defined benefit to a defined contribution pension, with the associated more relaxed rules around access and inheritance, more relevant to certain customer segments of the defined benefit market.

History

The Life Insurance Company of Scotland was established in 1825. In 1832 its name was changed to the Standard Life Assurance Company. It was reincorporated as a mutual assurance company in 1925. It originally operated only through branches or agencies of the mutual company in the United Kingdom and certain other companies. Its Canadian branch was founded in 1833 and its Irish operations were founded in 1834. This largely remained the structure of Standard Life until 1996, when it opened a branch in Frankfurt, Germany with the aim of exporting its United Kingdom life assurance and pensions operating model to capitalise on the opportunities present by EC Directive 92/96/EEC and offer a product range in the German market with features that local providers were unable to offer.

In the 1990s, Standard Life also sought to diversify its operations into areas which complemented its core life assurance and pensions business, with the intention of positioning itself as a broad range financial services provider. The SLI business was launched as a separate company in 1998. Prior to 2004, Standard Life Assurance comprised pensions, annuities and savings products with integrated life insurance and protection business and was invested predominantly in With Profits holding £91 billion of total life and pensions assets under administration (including in Canada). Standard Life launched its SIPP in December 2004.

In the early part of 2004, Standard Life undertook a strategic review of its business. The strategic review was wide-ranging and examined the group's business in its entirety, both in the United Kingdom and overseas, assessing the potential for a number of operational and financial improvements, but with a particular focus on United Kingdom life and pensions business. It was also acknowledged that the Group's mutual structure, and

the increased regulation to which it was subject, imposed limitations on its ability to access additional capital and could limit opportunities for planned growth and development, placing Standard Life at a disadvantage to insurance companies which did not have such a structure. On 10 July 2006, after a 98 per cent. “yes” vote from eligible voting members who voted, Standard Life Assurance Company demutualised and Standard Life was floated on the London Stock Exchange and joined the FTSE 100 index.

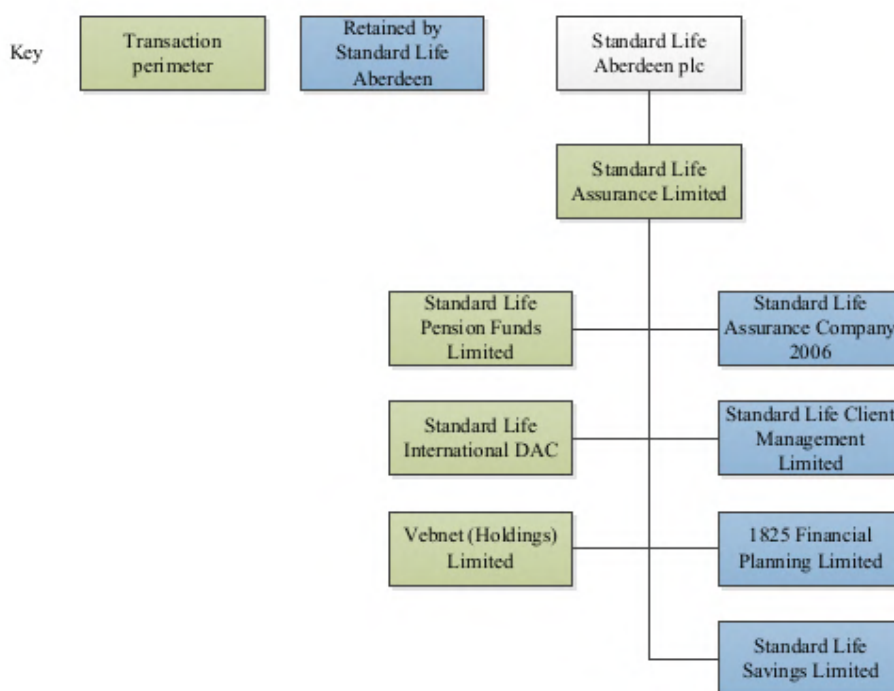
In recent years, Standard Life predominantly closed its With Profits funds to new business, other than to small amounts of unit-linked pensions and with profits bonds. In addition, Standard Life Healthcare, Standard Life Bank and the Canadian companies were sold, with Standard Life shifting its focus to offering capital light pensions and savings propositions through third party advisers, workplace clients and direct to customers.

Standard Life launched its Wrap platform in 2006. In 2016, with the acquisition of Elevate, Standard Life created one of the largest and fastest growing platform businesses in the UK.

Standard Life launched 1825, its wholly-owned financial planning business, in February 2015, with the acquisition of the wealth management business Pearson Jones. Between then and the end of 2017, it increased its presence across the UK with the acquisition of four further advice businesses.

Structure of Standard Life Assurance

The following chart gives an overview of the legal structure and transaction perimeter for Standard Life Assurance and its principal companies as at the date hereof.



Subsidiaries

The following is a list of SLAL’s principal subsidiaries as expected at Completion, being the Acquisition Life Companies (other than SLAL itself):

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Standard Life Pension Funds Limited	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Life insurance Undertaking
Standard Life International Designated Activity Company	90 St. Stephen's Green, Dublin D2 Ireland	100 per cent.	Life insurance Undertaking
Vebnet (Holdings) Limited	14 th Floor, 30 St. Mary Axe London EC3A 8BF United Kingdom	100 per cent.	Holding Company

Solvency Capital Requirement

Standard Life Assurance had estimated Solvency II Own Funds of £3.5 billion and SCR of £2.5 billion as at 31 December 2017 (both on a shareholder capital basis). The estimated Solvency II Surplus of Standard Life Assurance as at 31 December 2017 was £1.0 billion, with a Shareholder Capital Coverage Ratio of 143 per cent.

Risk management

Standard Life Assurance has an established and well-defined organisational and operational structure with clearly defined roles, responsibilities and reporting lines to ensure that appropriate spans of control operate throughout the organisation, in relation to its business activities and risk management.

Each business within Standard Life Assurance maintains a list of all of its decision-making committees. Each committee operates under its own terms of reference, which sets out its authority, purpose, scope and quorum details. The purpose of a quorum rule is to give decisions made by a committee enough authority to allow binding action to be conducted.

Standard Life Assurance's governance functions include Risk and Compliance, Internal audit and Actuarial who have responsibility for monitoring, reviewing, challenging and reporting on the status of Standard Life Assurance's risks on an ongoing basis. Fit and proper checks are carried out on applicable staff from key functions to ensure that they possess the competency, expertise and integrity necessary for the performance of their duties.

Standard Life Assurance operates a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for committees and individuals:

First line

Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate

Second line

Risk oversight is provided by the Chief Risk Officer and supported by the specialist Risk Management and Compliance

Third line

Independent verification of the adequacy and effectiveness of the internal risk and control management systems is

First line

controls, is delegated from the board of directors of Standard Life Assurance to the Chief Executive and, through a system of delegated authorities and limits, to business managers.

Second line

functions across Standard Life Assurance as well as committees such as the Enterprise Risk Management Committee (“**ERMC**”) and with reporting to the Risk and Capital Committee (the “**RCC**”). The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by non-executive Directors at the RCC.

Third line

provided by the internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

A key part of Standard Life Assurance’s system of governance is the Enterprise Risk Management (“**ERM**”) framework. The ERM framework includes the methods and processes used to manage risks, and identify and seize commercial opportunities related to the achievement of Standard Life Assurance’s objectives, protecting and enhancing value. It provides a framework for operating consistent risk management practices across Standard Life Assurance in a structured and forward-looking way that can be measured and repeated.

All of the ERM components are interconnected and work together to provide Standard Life Assurance with a holistic framework encouraging proactive and pre-emptive risk management across the Group. These ERM components include:

- **Risk culture:** this is the way individuals and the business think and act. It encompasses attitudes, capabilities and behaviours towards risk, which drives how Standard Life Assurance identifies, understands and openly discusses, and acts on, current and future risks;
- **Risk control processes:** these are the practices by which Standard Life Assurance manages risks and which are used to identify, assess, control and monitor risk;
- **Strategic risk management:** this forms an integral part of the strategic planning process and is directly linked to Standard Life Assurance’s corporate objectives. It supports the development of long-term value by ensuring well informed risk-reward decisions are taken in pursuit of Standard Life Assurance’s business plan;
- **Risk and capital models:** these measure Standard Life Assurance’s risk exposures and capital position and test and understand the sensitivity of these positions; and
- **Emerging risks:** the aim is to identify risks before they materialise to help Standard Life Assurance anticipate future threats. The screening process looks across broad sources of risk, including geopolitical, technological, environmental and societal risks, and informs stress testing and capital adequacy requirements.

Standard Life Assurance’s ERM framework is underpinned by the Own Risk and Solvency Assessment (“**ORSA**”) process.

The ORSA process informs and develops:

- Standard Life Assurance’s understanding of the current and potential risks to the business over product lifecycles. This includes both financial and non-financial risks and their potential to affect both long and short-term value;
- Standard Life Assurance’s appetite to accept these risks and how to manage them;
- Standard Life Assurance’s internal assessment of current solvency and capital requirements with respect to the risks; and
- a forward-looking assessment of the risk and solvency needs of Standard Life Assurance over a multi-year time horizon in light of business plans.



The ORSA process plays a key role in supporting decision making and strategy development at Standard Life Assurance’s boards and risk committees.

A policy framework seeks to achieve the high level business objectives by providing a structure to help articulate how the code of conduct, governing principles and all of the policies and procedures fit together to make sure that the business and employees operate within approved limits and standards, as defined by the board of Standard Life Assurance.

The fair treatment of customers is integral to all of Standard Life Assurance’s business activities and of fundamental importance. As such, policies are implemented with their specific impact on the customer in mind.

This framework provides a structured process for developing and implementing policies consistently across the Group. It operates on five levels:



For a description of the Enlarged Group's risk management following Completion, see "*Information on the Group - Risk management*".

Regulatory

Standard Life Assurance and the thematic review on the fair treatment of long-standing customers in the life insurance sector

For further information on the thematic review on the fair treatment of long-standing customers in the life insurance sector, see the section headed "Regulatory Overview – thematic review on the fair treatment of long-standing customers in the life insurance sector".

The FCA published Finalised Guidance FG16/8: Fair treatment of long-standing customers in the life insurance sector on 9 December 2016. SLAL completed its internal review of business practices on 8 March 2017 within the timescales set by the FCA.

SLAL's internal review of its business practices concluded that they supported the delivery of fair outcomes for customers, and certain improvement actions were identified and are in progress. The findings of the internal review were shared with the FCA in April 2017.

Standard Life Assurance and the thematic review on annuity sales practices

For further information on the thematic review on annuity sales practices, see "Regulatory Overview – FCA thematic review – The thematic review on annuity sales practices".

Standard Life Aberdeen has established a provision of £248 million in its 2017 annual accounts as an estimate of the redress payable to SLAL annuity customers, as well as the costs of conducting the review and other related costs and expenses. As at 31 December 2017, the total costs amounted to £27 million. The provision and timeline for customer redress are based on assumptions and it will not be until the review is underway and further progressed that these will be confirmed and validated. There is a risk that the underlying assumptions are incorrect, which may result in an overall cost that is higher or lower than the provision. The Standard Life Aberdeen group has not provided for any possible FCA-levied fine relating to the review.

Litigation and Arbitration Proceedings

Standard Life Assurance is participating in the FCA's thematic review on annuity sales. The FCA has not reached final conclusions as to the outcome of the thematic review on annuity sales and any follow-up work. For a description of the potential impact of this thematic review on Standard Life Assurance and/or the Enlarged Group, see "*Risk Factors – Risks relating to the Group – The thematic review on annuity sales practices may affect the Group's business*".

Properties

There is no existing or planned property, plant or equipment which is individually material to Standard Life Assurance. Standard Life Assurance owns or controls, generally through licences or other contractual arrangements or via long-term leases, the property, plant and equipment necessary to its operations.

For further information on Standard Life Assurance's property, plant and equipment, any major encumbrances thereon and the principal environmental issues that may affect Standard Life Assurance's utilisation of the property, plant and equipment that it owns or controls, see Note 13 to the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 set out in the annex to this Prospectus entitled "*Historical Financial Information of Standard Life Assurance*".

Standard Life Assurance Acquisition Agreements

For a description of the agreements entered into by Standard Life Assurance in relation to the Acquisition, see “*Information on the Group – Material Contracts – Standard Life Assurance Acquisition Agreements*”.

Material Contracts

The FRPRSG Bonds

On 12 July 2002, SL Finance plc, a wholly-owned subsidiary of SLAC, issued £500,000,000 6.75 per cent. Fixed Rate Perpetual Reset Subordinated Guaranteed Bonds (the “**FRPRSG Bonds**”). On 12 May 2006, Standard Life Aberdeen (formerly Standard Life plc) was substituted in place of SL Finance plc as issuer and SLAL agreed to provide a subordinated guarantee of the FRPRSG Bonds. The FRPRSG Bonds bear interest from their issue date at the rate of 6.75 per cent. per annum. From and including 12 July 2027 and every fifth anniversary thereafter, the rate of interest will be reset at the gross redemption yield on the benchmark gilt plus 2.85 per cent. The FRPRSG Bonds are perpetual securities with no fixed maturity date. The earliest date upon which Standard Life Aberdeen can redeem the FRPRSG Bonds is on 12 July 2027 and every fifth anniversary thereafter. The FRPRSG Bonds are subject to redemption prior to 12 July 2027 upon the occurrence of certain tax events or regulatory capital disqualification events that are set out in the terms and conditions of the FRPRSG Bonds.

The FRPRSG Bonds are subject to a mandatory interest deferral on failure of Standard Life Aberdeen or SLAL, as the case may be, to meet regulatory solvency both at the time of and immediately after any payment in respect of the FRPRSG Bonds. Standard Life Aberdeen may in its sole discretion defer interest payments on the FRPRSG Bonds and SLAL has the option to defer its obligation to make payments under the guarantee. If any payment of interest is not paid in full on any interest payment date, each of Standard Life Aberdeen and SLAL will be restricted from declaring or paying any dividends or distributions or making any other payments on any of its parity securities or any of its junior securities (other than a dividend which has been declared prior to the date on which the decision to defer any interest payment is made or where Standard Life Aberdeen or SLAL, as the case may be, is required to make a dividend, distribution or other payment in accordance with the terms of such parity securities or junior securities) or redeeming, purchasing or otherwise acquiring any of its parity securities or any of its junior securities, in each case unless or until an amount equal to the interest payments due and payable on all outstanding FRPRSG Bonds is paid in full or duly set aside or provided for in full. The FRPRSG Bonds are listed on the London Stock Exchange plc (the “**LSE**”).

The MACS

On 4 November 2004, SL MACS (No. 2) plc, a special purpose finance vehicle of the Standard Life Aberdeen group, issued £300,000,000 6.546 per cent. Mutual Assurance Capital Securities (the “**MACS**”). On 12 May 2006, Standard Life Aberdeen (formerly Standard Life plc) was substituted in place of SL MACS (No. 2) plc as issuer and SLAL agreed to provide a subordinated guarantee of the MACS. The MACS bear interest from their issue date at the rate of 6.546 per cent. per annum. From and including 6 January 2020 and every fifth anniversary thereafter, the rate of interest will be reset at the gross redemption yield on the benchmark gilt plus 2.7 per cent. The MACS are perpetual securities with no fixed maturity date. The earliest date upon which Standard Life Aberdeen can redeem the MACS is on 6 January 2020 and every fifth anniversary thereafter. The MACS are subject to redemption prior to 6 January 2020 upon the occurrence of certain tax events or regulatory capital disqualification events as described in the terms and conditions of the MACS.

The MACS are subject to a mandatory interest deferral on failure of Standard Life Aberdeen or SLAL, as the case may be, to meet regulatory solvency both at the time of and immediately after any payment in respect of the MACS. Standard Life Aberdeen may in its sole discretion defer interest payments on the MACS and SLAL has the option to defer its obligation to make payments under the guarantee. Standard Life Aberdeen or

SLAL, as the case may be, must satisfy their obligations to pay any deferred interest payment in respect of the MACS in accordance with an alternative coupon satisfaction mechanism, whereby payments are made with the proceeds from the issue of ordinary shares of Standard Life Aberdeen or SLAL, as applicable. If any payment of interest is not paid in full on any interest payment date, each of Standard Life Aberdeen and SLAL will be restricted from declaring or paying any dividends or distributions or making any other payments on any of its parity securities or any of its junior securities (other than a dividend which has been declared by Standard Life Aberdeen on its ordinary shares prior to the date on which the decision to defer any interest payment is made) or redeeming, purchasing or otherwise acquiring any of its parity securities or any of its junior securities, in each case unless or until an amount equal to the interest payments due and payable on all outstanding MACS is paid in full or duly set aside or provided for in full. The MACS are listed on the LSE.

The Collateralisation Arrangement related to Regulatory Capital Instruments

On and from Completion for so long as any of the FRPRSG Bonds or the MACS (together, the “**Regulatory Capital Instruments**”) remain outstanding, Standard Life Aberdeen will credit an aggregate amount in cash in pounds sterling at least equal to the then outstanding aggregate principal amount of the Regulatory Capital Instruments to one or more escrow accounts (which is currently expected to be funded by Standard Life Aberdeen from the repayment of the subordinated loans advanced to SLAL in connection with the Regulatory Capital Instruments, subject to regulatory approval). Standard Life Aberdeen will take all action necessary such that the escrow accounts are open and fully funded on the date of Completion. Under the Share Purchase Agreement, Standard Life Aberdeen has agreed to use commercially reasonable endeavours to complete a tender offer in respect of each of the Regulatory Capital Instruments. In the event that any Regulatory Capital Instruments remain outstanding after such tender offers, Standard Life Aberdeen will be entitled to invest all or some of such cash collateral in certain eligible investments (including investment grade debt securities issued by any of the government of the United States of America, the United Kingdom or a member of the European Union, or a corporate issuer (excluding special purpose vehicles) located in the United States of America, the United Kingdom or a member of the European Union). If, on the last business day of each month, the aggregate value of the cash collateral and the market value of the securities collateral is less than the then outstanding aggregate principal amount of the Regulatory Capital Instruments, Standard Life Aberdeen will be required to deposit an amount in cash or eligible securities at least equal to such shortfall.

Standard Life Aberdeen will only be entitled to withdraw amounts from the collateral accounts: (i) in order to satisfy its obligations under the Regulatory Capital Instruments; (ii) substitute any cash collateral or securities collateral; or (iii) if no shortfall will result from such withdrawal or if no Regulatory Capital Instruments remain outstanding and Standard Life Aberdeen has no further obligations thereunder. In the event that Standard Life Aberdeen fails to make any payments under the Regulatory Capital Instruments in full, or elects to exercise its right to defer such payment, PGH will be entitled to withdraw an amount in cash from the escrow account sufficient to satisfy such payment. In the event that a voluntary or involuntary bankruptcy, insolvency or other similar proceeding is brought against Standard Life Aberdeen or, while any MACS are outstanding, its ordinary shares are delisted from the LSE, PGH will be entitled to immediately transfer the cash and eligible securities in any collateral accounts into such accounts as PGH instructs.

INFORMATION ON PGH CAPITAL PUBLIC LIMITED COMPANY

PGHC (formerly PGH Capital Limited) was incorporated in Ireland on 14 January 2014, with registered number 537912 as a private company with limited liability under the Companies Acts 1963 – 2013 of Ireland. The registered office of PGHC is 10 Earlsfort Terrace, Dublin 2, Ireland and its telephone number is +353 1402 9400.

On 22 July 2016, PGHC was re-registered as a public limited company and renamed “PGH Capital Public Limited Company”. Pursuant to the Irish Companies Act, 2014 (as amended), which came into effect on 1 June 2015, as an existing private company limited by shares which had obtained an admission to trading on a regulated market for its debt securities, PGHC was required to be converted into a different type of company permitted under that Act. The directors of PGHC and PGH (as sole shareholder of PGHC) accordingly decided that it was in the best interests of PGHC for it to be converted to a public limited company.

Share Capital and Ownership

The authorised share capital of PGHC is £1,000,000 divided into 1,000,000 ordinary shares (“**PGHC Shares**”) of par value £1.00 each. PGHC has issued 25,000 PGHC Shares, which are fully paid and are held by PGH.

PGHC is a wholly-owned subsidiary of PGH.

Pursuant to the Constitution of PGHC, the board is responsible for the management of PGHC. Under Irish law, for as long as PGHC is solvent the board is required to act in the best interests of PGHC.

The relationship between PGHC and PGH, the sole shareholder of PGHC, is governed by the Constitution of PGHC and Irish law, including the Companies Act 2014 of Ireland and regulations made thereunder.

Principal Activities

The principal objects of PGHC are set forth in clause 3 of its Constitution (as currently in effect) and permit PGHC, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money (including the issuance of the Senior Notes) and to grant security over its property for the performance of its obligations or the payment of money.

PGHC was established to raise capital by the issue of debt securities and enter into bank financing arrangements and to use amounts equal to the proceeds of each such issuance or drawdown to advance loans to Group Companies.

Since its incorporation, PGHC has issued (i) on 7 July 2014, £300 million senior unsecured 5.75 per cent. Bonds due 2021 (the “**2021 Bonds**”), (ii) on 23 January 2015, £428,113,000 6.625 per cent. Subordinated Notes due 2025 (the “**2025 Notes**”) and, (iii) on 20 January 2017, £300,000,000 4.125 per cent. Tier 3 Notes due 2022 (the “**2022 Notes**”) and together with the 2021 Bonds and the 2025 Notes, the “**Existing Bonds**”). At the time of issue, the Existing Bonds were guaranteed by PGH. On 20 March 2017, PGH was substituted in place of PGHC as issuer of the Existing Bonds. PGHC repaid its borrowings under the Revolving Credit Agreement on 20 March 2017.

PGHC has no employees and has not carried out any business operations other than the financing activities referred to herein.

Directors and Company Secretary

PGHC’s Articles of Association provide that the board of directors of PGHC will consist of at least two Directors.

The directors of PGHC and their business addresses are as follows:

Malachy Smith
Regus House
Harcourt Road
Dublin 2
Ireland

Ciaran McGettrick
Regus House
Harcourt Road
Dublin 2
Ireland

Rashmin Shah
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU
United Kingdom

The Company Secretary is Bradwell Limited.

PGHC is not aware of any conflicts of interest between any duties owed by the directors to PGHC and their private interests or other duties. PGHC has procedures in place to identify and manage conflicts that may arise. The directors do not hold any direct, indirect, beneficial or economic interest in any of PGHC Shares.

Financial Statements

PGHC published its most recent financial statements in respect of the financial year ending on 31 December 2017. The financial year of PGHC ends on 31 December in each year. PGHC does not prepare interim financial statements.

Each year, a copy of the audited profit and loss account and balance sheet of PGHC together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of PGHC and, once filed, will be available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of PGHC.

FINANCIAL INFORMATION OF STANDARD LIFE ASSURANCE

Standard Life Assurance did not comprise a separate legal entity or group of legal entities during the years ended 31 December 2017, 2016 and 2015 and therefore the historical financial information of Standard Life Assurance combines the results, assets and liabilities and cashflows of all entities within Standard Life Assurance. The combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 has been prepared in accordance with the Prospectus Directive Regulation (No. 2004/809/EC) and in accordance with the basis of preparation described therein.

The combined historical financial information relating to Standard Life Assurance is set out in the annex to this Prospectus in the section entitled “*Historical Financial Information relating to Standard Life Assurance*”.

ACCOUNTANT'S REPORT



The Directors
Phoenix Group Holdings
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman KY-1104,
Cayman Islands

The Directors
PGH Capital Public Limited Company
Arthur Cox Building
10 Earlsfort Terrace
Dublin, 2
Ireland

18 April 2018

Ladies and Gentlemen

Phoenix Group Holdings

We report on the financial information set out in the annex entitled “*Historical Financial Information relating to Standard Life Assurance*” of the base prospectus dated 18 April 2018 of Phoenix Group Holdings and PGH Capital Public Limited Company relating to their £3,000,000,000 Euro Medium Term Note Programme which comprises combined financial statements for the three years ended 31 December 2017. This financial information has been prepared for inclusion in the base prospectus on the basis of the accounting policies set out in note 1.1. This report is required by paragraph 11.1 of Annex IX of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Phoenix Group Holdings are responsible for preparing the financial information on the basis of preparation set out in note 1.1(a) to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 13.1 of Annex IX of the Prospectus Directive Regulation, consenting to its inclusion in the base prospectus.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the base prospectus, a true and fair view of the state of affairs of the Standard Life Insurance Business as at 31 December 2017, 31 December 2016 and 31 December 2015 and of its profits, cashflows and changes in equity for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 in accordance with the basis of preparation set out in note 1.1(a) and has been prepared in a form that is consistent with the accounting policies adopted in Phoenix Group Holdings' latest annual accounts.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the base prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the base prospectus in compliance with paragraph 1.2 of Annex IX of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

UNAUDITED PRO FORMA IFRS FINANCIAL INFORMATION OF THE ENLARGED GROUP

PART A: PRO FORMA IFRS FINANCIAL INFORMATION

The unaudited pro forma IFRS income statement and unaudited pro forma IFRS statement of net assets of the Enlarged Group (together, the “Unaudited Pro Forma IFRS Financial Information”) set out below have been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The unaudited pro forma IFRS income statement has been prepared to illustrate the effect on the earnings of PGH as if the proposed Acquisition and the associated financing, had taken place on 1 January 2017. The unaudited pro forma IFRS statement of net assets has been prepared to illustrate the effect on the net assets of PGH as if the proposed Acquisition and the associated financing had taken place on 31 December 2017. The Unaudited Pro Forma IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent PGH’s or the Enlarged Group’s actual financial position or results. The Unaudited Pro Forma IFRS Financial Information is stated on the basis of the IFRS accounting policies adopted by PGH in preparing its consolidated financial statements for the year ended 31 December 2017.

Unaudited pro forma statement of consolidated IFRS income for the Enlarged Group for the year ended 31 December 2017

	Pro forma adjustments for the Group						Pro forma total
	Phoenix ⁽¹⁾	Standard Life Assurance ⁽²⁾	Adjustments to conform disclosures ⁽³⁾	Pre-completion adjustments ⁽⁴⁾	Financing adjustments ⁽⁵⁾	Acquisition adjustments ⁽⁶⁾	
				(£ million)			
Gross premiums written	1,130	2,099	—	—	—	—	3,229
Less premiums ceded to reinsurers	(205)	(45)	—	—	—	—	(250)
Net premiums written	925	2,054	—	—	—	—	2,979
Fees.....	173	633	—	—	—	(51)	755
Net investment income.....	4,986	12,801	—	—	—	—	17,787
Total revenue, net of reinsurance payables.....	6,084	15,488	—	—	—	(51)	21,521
Other operating income.....	5	28	—	—	—	—	33
Net income	6,089	15,516	—	—	—	(51)	21,554
Policyholder claims.....	(3,897)	(4,397)	—	—	—	—	(8,294)
Less: reinsurance recoveries..	443	480	—	—	—	—	923
Change in insurance contract liabilities	1,392	1,392	—	—	—	—	2,784
Change in reinsurers’ share of insurance and contract liabilities	(423)	(567)	—	—	—	—	(990)
Transfer to unallocated surplus.....	(46)	(61)	—	—	—	—	(107)
Net policyholder claims and benefits incurred	(2,531)	(3,153)	—	—	—	—	(5,684)
Change in investment contract liabilities.....	(2,673)	(8,873)	—	—	—	—	(11,546)
Acquisition costs.....	(6)	-	—	—	—	—	(6)

Pro forma adjustments for the Group

	Phoenix ⁽¹⁾	Standard Life Assurance ⁽²⁾	Adjustments to conform disclosures ⁽³⁾	Pre-completion adjustments ⁽⁴⁾	Financing adjustments ⁽⁵⁾	Acquisition adjustments ⁽⁶⁾	Pro forma total
				(£ million)			
Change in present value of future profits	5	-	—	—	—	—	5
Amortisation of acquired in-force business	(109)	-	—	—	—	(201)	(310)
Amortisation and impairment of other intangibles.....	(17)	-	(46)	—	—	—	(63)
Administrative expenses	(590)	(1,075)	46	—	—	37	(1,582)
Provision for annuity sales practices.....	—	(100)	—	—	—	—	(100)
Expenses under arrangements with reinsurers.....	—	(202)	21	—	—	—	(181)
Net income attributable to unitholders	(43)	(1,537)	—	—	—	—	(1,580)
Total operating expenses.....	(5,964)	(14,940)	21	—	—	(164)	(21,047)
Profit before finance costs and tax	125	576	21	—	—	(215)	507
Finance costs.....	(132)	(25)	(21)	20	(47)	-	(205)
(Loss)/profit before tax	(7)	551	—	20	(47)	(215)	302
Tax charge attributable to policyholders' returns.....	(21)	(159)	—	—	—	—	(180)
(Loss)/profit before tax attributable to owners.....	(28)	392	—	20	(47)	(215)	122
Tax credit/(charge).....	(20)	(207)	—	(9)	9	29	(198)
Add: tax attributable to policyholders' returns.....	21	159	—	—	—	—	180
Tax credit/(charge) attributable to owners.....	1	(48)	—	(9)	9	29	(18)
(Loss)/profit for the year attributable to owners.....	(27)	344	—	11	(38)	(186)	104
Attributable to:							
Owners of the parent	(27)	286	—	45	(38)	(186)	80
Non-controlling interests - Subordinated notes	—	34	—	(34)	—	—	—
Non-controlling interests - Other	—	24	—	—	—	—	24

Notes:

- (1) The financial information for PGH has been extracted, without material adjustment, from PGH's Annual Report and Accounts for the year ended 31 December 2017.
- (2) The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in the annex to this Prospectus entitled "Historical Financial Information of Standard Life Assurance".
- (3) This column reflects adjustments to align the presentation of the income statement of Standard Life Assurance to that of PGH as follows:
 - (a) PGH discloses the amortisation and impairment of intangible assets separately in the income statement, whereas Standard Life Assurance discloses such amounts within "Administrative expenses". Accordingly a reclassification of £46 million has been made between "Administrative expenses" and "Amortisation and impairment of other intangibles".
 - (b) Standard Life Assurance recognises interest payable on deposits from reinsurers within "Expenses under arrangements with reinsurers". PGH recognises such amounts in "Finance costs". A reclassification of £21 million has been made in this regard.

- (4) This column represents the following adjustments:
- (a) As described in note 4(a) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, under the Share Purchase Agreement, Standard Life Assurance will repay the £300 million Mutual Assurance Capital Securities and £500 million subordinated guaranteed bonds (non-shareholders equity) prior to Completion. An adjustment of £20 million has been made to "Finance costs" to reflect that the Enlarged Group will no longer incur finance charges associated with the Mutual Assurance Capital Securities. A £4 million charge has been recognised in "Tax attributable to owners", representing the reversal of the tax credit received on those costs. An adjustment of £34 million (net of tax) has been made to "Profit for the year attributable to Non-controlling interests – Subordinated notes", reflecting that no charge to equity will be required in respect of interest costs on these instruments.
 - (b) As described in note 4(b) to the unaudited pro forma statement of IFRS net assets for the Enlarged Group, under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, an adjustment of £26 million to "Administrative expenses" has been made to reverse the IAS 19 pension accounting amounts credited to the income statement of Standard Life Assurance in respect of these non-transferring defined benefit pension schemes.
 - (c) An adjustment of £26 million has been made to "Administrative expenses" to reflect that certain costs historically recognised by Standard Life Assurance will no longer be incurred going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group under the terms of the Share Purchase Agreement. This wholly offsets the adjustment detailed in note 4(b) above. A £5 million charge has been recognised in "Tax attributable to owners", representing the reversal of tax credit received on these costs.
- (5) A charge of £47 million has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the Backstop Revolving Credit Agreement and the £600 million of hybrid capital instruments entered into to finance part of the Acquisition. An associated tax credit of £9 million has been recognised within "Tax attributable to owners". To the extent that the hybrid capital instruments qualify to be treated as equity under the requirements of IAS 32, the adjustment to "Finance costs" and "Tax credit attributable to owners" would reduce and would be offset by an increase in the "Profit for the year attributable to Non-controlling interests - Subordinated notes".
- (6) This column represents the following adjustments:
- (a) A charge of £40 million has been made to the line item "Administrative expenses" to reflect an estimate of the one-off transaction costs incurred (this has been offset by the £77 million credit detailed in (b) (iii) below). No tax relief is expected to be available on these expenses.
 - (b) As described in note 6(d) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, a fair valuation exercise of the assets and liabilities as at the date of acquisition will be performed on Completion. This will include a fair valuation of the future cashflows associated with Standard Life Assurance's in-force insurance contracts. The resultant asset will be recognised as Acquired Value of In-Force business ("AVIF") in the statement of consolidated financial position.
 Under the Group's accounting policy, AVIF is amortised over the estimated life of the contracts on a basis which recognises the emergence of economic benefits. The estimated life of the contracts will not be known until completion of the Acquisition.
 In order to provide an indication of the effect of amortising the estimated AVIF asset and related deferred tax liability shown in the pro forma statement of net assets, management's initial assessment of the estimated life of the acquired contracts is 10 years on a weighted average duration basis. An estimated annual amortisation charge of £201 million has therefore been calculated on a straight line basis, with an estimated annual credit of £34 million relating to the unwind of the related deferred tax liability. The estimated useful life of 10 years represents PGH's assessment of the weighted average of the useful lifetime of the Standard Life Assurance portfolio of contracts, based on an analysis of the underlying Standard Life Assurance management information with regards to the expected emergence of profits from the book of business.
 This has resulted in the following adjustments:
 - (i) a £201 million charge within the line item "Amortisation of acquired in-force business";
 - (ii) a £34 million credit within the line item "Tax attributable to owners", representing the unwind of the deferred tax liability on the AVIF;
 - (iii) a £77 million credit within the line item "Administrative expenses" and a £51 million charge in "Fees" to reverse the amortisation of deferred acquisition costs and deferred income respectively, reflecting that these balances are replaced by AVIF as described in note 6(d) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group; and
 - (iv) a £5 million charge within the line item "Tax attributable to owners", representing the reversal of the unwind of deferred tax on the deferred acquisition costs and deferred income.
- (7) In preparing the unaudited pro forma IFRS income statement, no account has been taken of the amortisation of other intangibles other than AVIF arising on acquisition or items subject to fair value acquisition accounting, on the basis that the fair valuation exercise will be performed on completion.
- (8) All of the adjustments described in Notes 4, 5 and 6 to the unaudited pro forma income statement will have a continuing impact, with the exception of the adjustment in relation to the estimated one-off transaction costs.
- (9) PGH presents a supplementary non-GAAP analysis of the result for the year attributable to owners that separately identifies an operating profit based on expected long-term investment returns. The operating profit measure is stated before amortisation and impairment of intangibles, other non-operating items, finance costs and tax. The following table illustrates the effect of the Proposed Acquisition and associated financing on the non-GAAP reconciliation of Group operating profit to result attributable to shareholders for the Enlarged Group on a pro forma basis. This information is supplementary to the unaudited pro forma IFRS income statement. The details of adjustments are described in the subsequent footnotes.

Pro forma adjustments for the Group

	Phoenix ^(a)	Standard Life Assurance ^(b)	Adjustments to conform disclosures ^(c)	Other adjustments ^(d)	Proforma total
			(£ million)		
Total operating profit	368	366	—	26	760
Investment return variances and economic assumption changes on long-term business.....	(6)	135	24	—	153
Variance on owners funds.....	(87)	(3)	—	—	(90)
Provision for annuity sales practices	—	(100)	100	—	—
Amortisation of acquired in-force business.....	(102)	—	—	(201)	(303)
Amortisation of other intangibles.....	(17)	—	—	—	(17)
Profit attributable to Non-controlling interest - other	—	24	(24)	—	—
Other non-operating items.....	(80)	(10)	(100)	(40)	(230)
Profit before finance costs attributable to owners	76	412	—	(215)	273
Finance costs attributable to owners.....	(104)	(20)	—	(27)	(151)
(Loss)/profit before tax attributable to owners	(28)	392	—	(242)	122
Tax credit/(charge) attributable to owners.....	1	(48)	—	29	(18)
(Loss)/profit for the year attributable to owners ..	(27)	344	—	(213)	104

Notes:

- (a) The financial information for PGH has been extracted, without material adjustment, from PGH's Annual Report and Accounts for the year ended 31 December 2017.
- (b) The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in the annex to this Prospectus entitled "*Historical Financial Information of Standard Life Assurance*".
- (c) This column reflects adjustments to align the presentation of Standard Life Assurance's non-GAAP reconciliation of operating profit to result attributable to shareholders to that of PGH as follows:
- (i) Standard Life Assurance has disclosed "Provision for annuity sales practices" separately on the face of the non-GAAP reconciliation of operating profit to result attributable to shareholders. PGH would include such amounts within "Other non-operating items". A reclassification of £100 million has been made in this regard.
 - (ii) Standard Life Assurance has disclosed "Profit attributable to Non-controlling interest – other" separately, whereas PGH would include such amounts within "Investment return variances and economic assumption changes on long-term business". A reclassification of £24 million has therefore been made.
- (d) This column represents the following adjustments as detailed in Notes 4, 5 and 6 above:
- (i) An adjustment of £40 million has been made to the line item "Other non-operating items" to reflect an estimate of the one-off transaction costs incurred.
 - (ii) An adjustment of £201 million to "Amortisation of acquired in-force business" will be charged to the income statement reflecting the incremental amortisation charge on the AVIF arising on acquisition as described in Note 6(b) above.
 - (iii) An adjustment of £47 million to "Finance costs attributable to owners" reflecting the increase in interest costs payable under the Backstop Revolving Credit Agreement and the £600 million of hybrid capital instruments entered into to finance part of the Acquisition as described in note 5 above, partly offset by the £20 million reduction in interest costs following the pre-completion repayment of the £300 million Mutual Assurance Capital Securities, described in 4(a) above.
 - (iv) The pre-tax impact of all other adjustments has been recognised within operating profit (see 4(b), 4(c) and 6(b)(iii)).
 - (v) An adjustment of £29 million to "Tax credit / (charge) attributable to owners" has been made to reflect the tax effect of the above items.
- (10) In preparing the unaudited pro forma IFRS income statement, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

Summary unaudited pro forma statement of IFRS net assets of the Enlarged Group as at 31 December 2017

AII 4
AII 6

Pro forma adjustments for the Group

	Phoenix ⁽¹⁾	Standard Life Assurance ⁽²⁾	Adjustments to conform disclosures ⁽³⁾	Pre-completion adjustments ⁽⁴⁾	Financing adjustments ⁽⁵⁾	Acquisition adjustments ⁽⁶⁾	Pro forma total
	<i>(£ million)</i>						
Assets							
Pension Scheme Asset.....	322	1,099	—	(1,099)	—	—	322
Intangible Assets:							
—Goodwill	57	—	—	—	—	—	57
—Acquired in-force business	1,298	—	—	—	—	2,014	3,312
—Deferred acquisition costs .	—	606	—	—	—	(606)	—
—Other intangibles	202	85	—	—	—	—	287
	1,557	691	—	—	—	1,408	3,656
Deferred tax	—	11	—	—	—	—	11
Property, plant and equipment	26	7	—	—	—	—	33
Investment property	612	8,374	—	—	—	—	8,986
Financial Assets:							
—Loans and deposits	1,812	105	—	—	—	—	1,917
—Derivatives	2,760	3,026	—	—	—	—	5,786
—Equities	17,234	—	53,983	—	—	—	71,217
—Investment in associates	550	—	—	—	—	—	550
—Fixed and variable rate income securities.....	26,998	59,457	—	—	—	—	86,455
—Equity securities and investments in pooled investment funds	—	96,067	(96,067)	—	—	—	—
—Collective investment schemes.....	18,901	—	42,084	—	—	—	60,985
—Reinsurers' share of investment contract liabilities	6,085	—	—	—	—	—	6,085
	74,340	158,655	—	—	—	—	232,995
Insurance assets:							
—Reinsurers' share of insurance contract liabilities..	3,320	4,822	—	—	—	—	8,142
—Reinsurance receivables	32	—	2	—	—	—	34
—Insurance contract receivables	7	—	71	—	—	—	78
	3,359	4,822	73	—	—	—	8,254
Current tax	47	—	165	—	—	—	212
Prepayments and accrued income	355	—	145	—	—	—	500
Other receivables	580	—	513	—	—	—	1,093
Receivables and other financial assets	—	616	(616)	—	—	—	—
Other assets.....	—	280	(280)	—	—	—	—
Cash and cash equivalents	2,245	8,677	—	(1,132)	1,941	(1,971)	9,760
Assets classified as held for	—	156	—	—	—	—	156

Pro forma adjustments for the Group

	Phoenix ⁽¹⁾	Standard Life Assurance ⁽²⁾	Adjustments to conform disclosures ⁽³⁾	Pre-completion adjustments ⁽⁴⁾	Financing adjustments ⁽⁵⁾	Acquisition adjustments ⁽⁶⁾	Pro forma total
				(£ million)			
sale.....							
Total assets	83,443	183,388	—	(2,231)	1,941	(563)	265,978
Liabilities							
Pension Scheme liabilities	633	51	—	(42)	—	—	642
Insurance contract liabilities:							
—Liabilities under insurance contracts	44,435	22,747	29,974	—	—	40	97,196
—Participating contract liabilities	—	30,577	(30,577)	—	—	—	—
—Unallocated surplus	925	—	603	—	—	—	1,528
	45,360	53,324	—	—	—	40	98,724
Financial liabilities:							
—Investment contracts.....	26,733	104,383	—	—	—	78	131,194
—Borrowings.....	1,778	318	—	(318)	1,004	—	2,782
—Deposits received from reinsurers	368	4,633	—	—	—	—	5,001
—Derivatives	1,242	768	—	—	—	—	2,010
—Net asset value attributable to unit holders	840	13,371	—	—	—	—	14,211
—Obligations for repayment of collateral received	1,961	—	1,494	—	—	—	3,455
	32,922	123,473	1,494	(318)	1,004	78	158,653
Provisions	134	—	281	—	—	—	415
Deferred tax	366	235	—	—	—	277	878
Reinsurance payables	23	—	5	—	—	—	28
Payables related to direct insurance contracts	522	—	317	—	—	—	839
Current tax	5	116	—	—	—	—	121
Accruals and deferred income	179	157	64	—	—	(157)	243
Other financial liabilities	—	2,538	(2,538)	—	—	—	—
Other liabilities	—	374	(374)	—	—	—	—
Other payables	144	—	751	—	—	40	935
Total liabilities	80,288	180,268	—	(360)	1,004	278	261,478
Net assets attributable to owners of the parent.....	3,155	2,321	—	(1,369)	937	(841)	4,203
Non-controlling interests - Subordinated notes	—	502	—	(502)	—	—	—
Non-controlling interests - Other	—	297	—	—	—	—	297

Notes:

- (1) The financial information for PGH has been extracted, without material adjustment, from PGH's Annual Report and Accounts for the year ended 31 December 2017.

- (2) The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in the annex to this Prospectus entitled “*Historical Financial Information of Standard Life Assurance*”.
- (3) This column reflects adjustments to align the presentation of the Standard Life Assurance statement of net assets with that of the Group:
- (a) PGH recognises “Equities” and “Collective investment schemes” separately, whereas Standard Life Assurance discloses these amounts together. Accordingly reclassification adjustments of £53,983 million and £42,084 million have been made from “Equity securities and interests in pooled investment funds” to “Equities” and “Collective investment schemes” respectively.
 - (b) Standard Life Assurance discloses items in the captions “Receivables and other financial assets” and “Other assets” that PGH discloses in other lines. Reclassifications of £145 million to “Prepayments and accrued income”, £2 million to “Reinsurance receivables”, £71 million to “Insurance contract receivables”, £165 million to “Current tax” and £513 million to “Other receivables” have therefore been made.
 - (c) Standard Life Assurance discloses “Participating contract liabilities” separately, whereas PGH discloses such items within “Liabilities under insurance contracts” and “Unallocated surplus”. Reclassifications of £29,974 million and £603 million have therefore been made to “Liabilities under insurance contracts” and “Unallocated surplus” respectively.
 - (d) Standard Life Assurance discloses items in the captions “Other financial liabilities” and “Other liabilities” that PGH discloses in other lines. Reclassifications of £5 million to “Reinsurance payables”, £317 million to “Payables related to direct insurance contracts”, £64 million to “Accruals and deferred income”, £1,494 million to “Obligations for repayment of collateral”, £281 million to “Provisions” and £751 million to “Other payables”.
- (4) This column represents the following adjustments:
- (a) Under the terms of the Share Purchase Agreement, Standard Life Assurance will pay a dividend of £312 million prior to Completion. Standard Life Assurance will also repay the Mutual Assurance Capital Securities (recognised within “Borrowings”) and the “Non-controlling interest - Subordinated notes”. As such, the following adjustments have been made to the unaudited pro forma statement of net assets:
 - (i) an adjustment of £312 million has been made to “Cash and cash equivalents” to reflect the payment of the dividend; and
 - (ii) adjustments of £318 million to “Borrowings”, and £502 million to “Subordinated notes – non-shareholders equity” to reflect the repayment of the Mutual Assurance Capital Securities and the Subordinated Guaranteed Bonds respectively with a corresponding adjustment. to “Cash and cash equivalents” of £820 million.
 - (b) Under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, adjustments of £1,099 million and £42 million have been made to remove the IAS 19 pension surplus and deficit from the “Pension scheme asset” and “Pension scheme liability” respectively.
- (5) The total consideration is £2,930 million and will be met through Standard Life Aberdeen’s 19.99% holding in the Enlarged Group of £959 million and cash consideration of £1,971 million. The value of the 19.99% share capital in the Enlarged Group issued to Standard Life Aberdeen has been calculated based on a £950 million Rights Issue and a market capitalisation of the Group of £2,888 million on 22 February 2018 (the date of signing of the Share Purchase Agreement) after deducting an assumed Final dividend of 25.1 pence per share. The cash consideration will be financed through the gross proceeds of the £950 million Rights Issue and the £600 million issuance of hybrid capital instruments, with the remaining balance of £421 million being financed by a part-drawdown on the Backstop Revolving Credit Agreement. This results in the following financing adjustments:
- (a) The expected gross proceeds of the Rights Issue are £950 million. Fees associated with the Rights Issue are estimated at £13 million, giving net proceeds of £937 million, recognised within “Cash and cash equivalents”.
 - (b) An adjustment of £1,004 million has been made to “Borrowings” and to “Cash and Cash Equivalents” to reflect the borrowings under the £600 million issuance of hybrid capital instruments and the £421 million part-drawdown of the Backstop Revolving Credit Agreement, net of associated expenses of £17 million. To the extent that the hybrid capital instruments qualify to be treated as equity under the requirements of IAS 32, the adjustment to “Borrowings” would reduce with an offsetting adjustment recognised in “Non-controlling interests – Subordinated notes”.
- (6) This column represents the following adjustments:
- (a) An adjustment of £40 million has been made to “Other Payables” to reflect provision for estimated one-off transaction costs. No tax relief is expected to be available on these expenses.
 - (b) Payment of the cash consideration of £1,971 million results in a decrease in “Cash and Cash Equivalents” of that amount (see note 5 above).
 - (c) Following the Acquisition, it is anticipated that certain investment management fees incurred by the Enlarged Group will attract VAT where previously they were exempt from charge. Adjustments of £40 million and £78 million have been made to increase “Liabilities under insurance contracts”, and “Investment contracts” to reflect the capitalised impact of these increased expenses on the valuation of insurance contract liabilities. These net asset impact of these adjustments is partly offset by a credit of £20 million recognised in “Deferred Tax”.
 - (d) Under IFRS 3 Business Combinations, it is a requirement to fair value the consideration paid and all assets and liabilities acquired as at the acquisition date. This fair valuation exercise will not be performed until Completion, and therefore no adjustments have been made to the fair values of the individual assets and liabilities of Standard Life Assurance when preparing the unaudited pro forma statement of net assets.
 A significant adjustment arising from the fair value exercise is expected to be the valuation of the future cashflows associated with the in-force insurance contracts of Standard Life Assurance and the subsequent recognition of an acquired value of in-force business asset.
 Whilst the fair value of the of the projected cashflows will not be known until completion of the acquisition accounting exercise, an indication of the acquired value of in-force to be recognised on Completion is provided below.

(£ million)

Total consideration	2,930
Less:	
Value of the IFRS net assets of Standard Life Assurance attributable to owners of the parent.	854
Value of deferred acquisition costs, net of related deferred tax, included within the net assets of Standard Life Assurance	553
Add:	
Value of deferred income liabilities, net of related deferred tax, included within the net assets of Standard Life Assurance	149
Indicative AVIF, net of deferred tax	<u>1,672</u>
Gross up for deferred tax at 17 per cent.	<u>342</u>
Indicative AVIF	<u><u>2,014</u></u>

The value of the IFRS net assets of Standard Life Assurance of £854 million has been stated after reflecting the pre-completion adjustments described in note 4 and the adjustments detailed in Note 6 (c).

As such, the following adjustments have been made in the unaudited pro forma statement of net assets:

- (i) an adjustment of £2,014 million has been recognised to “Acquired in-force business” as calculated above;
 - (ii) Adjustments of £606 million and £157 million have been made to “Deferred acquisition costs” and “Accruals and deferred income” to reflect the removal of the Standard Life Assurance Deferred acquisition costs asset and Deferred income liability, as these amounts are replaced by the value of the AVIF upon acquisition; and
 - (iii) an adjustment of £297 million has been made to the caption “Deferred tax” to reflect the difference between the deferred tax liability of £342 million arising on the recognised AVIF balance (calculated using a tax rate of 17 per cent., reflecting future reductions in corporate tax rates where enacted in legislation) and the removal of a £53 million deferred tax liability recognised in respect of the Deferred acquisition costs and an £8 million deferred tax asset recognised in respect of Deferred income included in the net assets of Standard Life Assurance. As described in note 6(d)(ii) above.
 - (e) No other adjustments have been made to the fair values of assets and liabilities acquired, including the recognition of goodwill or other intangible assets, as the necessary remeasurements will not be known until Completion.
- (7) In preparing the unaudited pro forma IFRS net asset statement, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

PART B: ACCOUNTANTS' REPORT

A2.7



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The Directors
Phoenix Group Holdings
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PO Box 309
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18 April 2018

Dear Sirs,

We report on the unaudited pro forma financial information (the “**Pro Forma IFRS Financial Information**”) set out in the section entitled “*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*” of the £3,000,000,000 Euro Medium Term Note Programme prospectus dated 18 April 2018, which has been prepared on the basis described in the notes to the unaudited Pro Forma IFRS Financial Information, for illustrative purposes only, to provide information about how the acquisition of Standard Life Assurance Limited and certain of its subsidiaries and Vebnet (Holdings) Limited and the associated financing (the “**Proposed Transaction**”) might have affected the financial information presented on the basis of the IFRS accounting policies adopted by Phoenix Group Holdings (the “**Company**”) in preparing the financial statements for the period ended 31 December 2017. This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex IX to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma IFRS Financial Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma IFRS Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma IFRS Financial Information, nor do we

accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma IFRS Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma IFRS Financial Information has been properly compiled on the basis stated and that such basis is consistent with the IFRS accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma IFRS Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex IX of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

UNAUDITED PRO FORMA SOLVENCY INFORMATION OF THE ENLARGED GROUP

PART A: PRO FORMA SOLVENCY INFORMATION

The unaudited pro forma statement of Group Solvency II Surplus of the Enlarged Group (the “**Unaudited Pro Forma Solvency Information**”) set out below has been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The Unaudited Pro Forma Solvency Information has been prepared to illustrate the effect on the group solvency position at the level of Phoenix Group Holdings as if the proposed Acquisition, and the associated financing, had taken place on 31 December 2017. The Unaudited Pro Forma Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent PGH or the Enlarged Group’s actual financial position, results or solvency position. The Unaudited Pro Forma Solvency Information is stated on PGH’s basis of Solvency II reporting (the “**Solvency Accounting Policies**”) expected to be applied by PGH for the year ending 31 December 2018.

Standard Life Assurance has regulatory approval to calculate its solvency capital requirements in accordance with its own Internal Model. The preparation of the unaudited pro forma solvency information for the Enlarged Group has been completed using the Deduction and Aggregation method. Under this method, Standard Life Assurance will continue to calculate its solvency capital requirements in accordance with its existing Internal Model. No capital diversification benefits will be recognised with existing Phoenix Group entities who will continue to use PGH’s Internal Model to calculate solvency capital requirements. The use of the Deduction and Aggregation approach is subject to approval at the discretion of the PRA. The Group intends to make the relevant application to use the Deduction and Aggregation approach ahead of Completion.

The Group expects to work with the PRA to harmonise to a single group Internal Model in the future and to incorporate Standard Life Assurance within that model. Any such approval to use a single group Internal Model will also be within the discretion of the PRA.

Unaudited pro forma statement of Enlarged Group Solvency II Surplus as at 31 December 2017

	Pro forma adjustments					Pro forma Enlarged Group total
	Group ⁽¹⁾	Standard Life Assurance ⁽²⁾	Pre-completion adjustments ⁽³⁾	Financing adjustments ⁽⁴⁾	Acquisition adjustments ⁽⁵⁾	
Own Funds (£ billion)	6.6	6.3	(2.1)	1.6	(2.2)	10.2
Solvency Capital Requirement (£ billion)	(4.8)	(3.2)	0.3	—	—	(7.7)
Solvency II Surplus (£ billion)	1.8	3.1	(1.8)	1.6	(2.2)	2.5
Regulatory Coverage Ratio	139%	—	—	—	—	132%
Shareholder Capital Coverage Ratio ⁽⁵⁾	164%	—	—	—	—	147%

Notes:

- (1) The solvency information for PGH has been extracted, without material adjustment, from PGH’s Annual Report and Accounts for the year ended 31 December 2017.
- (2) The solvency information for Standard Life Assurance has been extracted without material adjustment, from the combined historical financial information of the Standard Life insurance business as at and for the year ended 31 December 2017 included in the annex to this Prospectus entitled “*Historical Financial Information of Standard Life Assurance*”.

- (3) This column represents the following adjustments:
- (a) Under the terms of the Share Purchase Agreement, Standard Life Assurance will pay a dividend prior to Completion which will reduce Own Funds by £0.3 billion. Standard Life Assurance will also repay subordinated debt instruments that qualify to be recognised as Own Funds which will reduce the Own Funds by £0.8 billion.
 - (b) Under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, the impact of removing the defined benefit schemes is to reduce Own Funds by £1.1 billion and SCR by £0.3 billion.
 - (c) Certain costs historically recognised by Standard Life Assurance will no longer be incurred going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group under the terms of the Share Purchase Agreement. Removal of the capitalised value of these costs increases Own Funds by £0.1 billion.
- (4) The financing adjustments in connection with the Acquisition include the following items which impact Own Funds. These adjustments have no impact on SCR:
- (a) Equity raised of £1.0 billion under the Rights Issue will increase the Own Funds.
 - (b) The receipt of debt financing in the form of £600 million of hybrid capital instruments will increase the Own Funds by £0.6 billion as the hybrid capital instruments qualify as Own Funds under Solvency II.
 - (c) The receipt of debt financing in the form of the Backstop Revolving Credit Agreement increases both cash and borrowings by £0.4 billion, respectively. The impact on Own Funds is therefore net neutral.
- (5) The acquisition adjustments comprise the following:
- (a) The payment of the cash consideration reduces Own Funds by £2.0 billion. The cash consideration is calculated as the total consideration of £2.9 billion less the value of the 19.99% share capital in the Group issued to Standard Life Aberdeen of £0.9 billion, calculated based on a £1.0 billion Rights Issue and a market capitalisation of the Group of £2,888 million on 22 February 2018 (the date of signing of the Share Purchase Agreement) after deducting an assumed Final dividend of 25.1 pence per share.
 - (b) Expenses incurred in association with the proposed Acquisition, the associated financing including the issuance of £600 million of hybrid capital instruments and the Rights Issue will be borne by PGH and therefore decrease the Group Solvency II Surplus by £0.1 billion.
 - (c) Following Completion, it is anticipated that certain investment management fees incurred by the Enlarged Group will attract VAT where previously they were exempt from charge. The capitalised impact of these charges decreases Own Funds by £0.1 billion.
- (6) The Shareholder Capital Coverage Ratio represents the ratio of Own Funds to SCR, after elimination of amounts related to unsupported with profit funds and the PGL Pension Scheme. Unsupported with profit funds and pension schemes are those whose Own Funds exceed their SCR.

As detailed in the table below, the Group Own Funds of £6.6 billion and Group SCR of £4.8 billion include amounts in respect of unsupported with profit funds and the PGL Pension Scheme of £2.0 billion. Excluding these amounts gives a Group Shareholder Capital position of £4.6 billion of Own Funds, £2.8 billion of SCR and a ratio of 164 per cent. The Group Solvency II Surplus is unchanged at £1.8 billion.

The Group	Base solvency	Unsupported with profit funds and Group Pension Schemes	Shareholder Capital
Own Funds (£ billion)	6.6	(2)	4.6
SCR (£ billion)	(4.8)	2	(2.8)
Solvency II Surplus (£ billion)	1.8	0	1.8
Shareholder Capital Coverage Ratio.....	—	—	164%

The Standard Life Assurance Own Funds of £6.3 billion include amounts in respect of unsupported with profit funds of £0.4 billion and pension schemes in surplus of £1.1 billion. The Standard Life Assurance SCR of £3.2 billion includes amounts in respect of unsupported with profit funds of £0.4 billion and pension schemes in surplus of £0.3 billion. Excluding these amounts gives a Shareholder Capital position for Standard Life Assurance of £4.8 billion of Own Funds, £2.5 billion of SCR and a ratio of 192 per cent. Standard Life Assurance's Solvency II surplus on the Shareholder Capital basis decreases to £2.3 billion. This reflects that at on a solo regulatory basis, credit is taken for the surplus on the pension schemes included within the regulatory basis Own Funds of Standard Life Assurance. On a Shareholder Capital basis, no credit is taken for surpluses in such pension schemes.

Standard Life Assurance	Base solvency	Unsupported with profit funds and Pension Schemes	Shareholder Capital
Own Funds (£ billion)	6.3	(1.5)	4.8
SCR (£ billion)	(3.2)	0.7	(2.5)
Solvency II Surplus (£ billion)	3.1	(0.8)	2.3
Shareholder Capital Coverage Ratio.....			192%

The pre-completion, financing and acquisition adjustments described in Notes 3, 4 and 5 all impact the Shareholder Capital position with the exception of the adjustment detailed in Note 3(b) (as the pension schemes are removed when deriving the Shareholder Capital position). The Enlarged Group Shareholder Capital position therefore comprises £7.8 billion of Own Funds, £5.3 billion of SCR and a Shareholder Capital Coverage Ratio of 147 per cent. The Shareholder Capital position for the Enlarged Group excludes Own Funds and SCR amounts of £2.4 billion in respect of unsupported with profit funds and the PGL Pension Scheme. The Enlarged Group's Solvency II surplus of £2.5 billion is unchanged.

Enlarged Group	Base Solvency II position	Unsupported with profit funds and PGL Pension Scheme	Shareholder Capital
Own Funds (£ billion)	10.2	(2.4)	7.8
SCR (£ billion)	(7.7)	2.4	(5.3)
Solvency II Surplus (£ billion)	2.5	0	2.5
Shareholder Capital Coverage Ratio.....			147%

- (7) In preparing the unaudited pro forma statement of Group Solvency II Surplus, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

PART B: ACCOUNTANTS' REPORT



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The Directors
Phoenix Group Holdings
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman KY-1104,
Cayman Islands

18 April 2018

Dear Sirs,

We report on the unaudited pro forma solvency information (the “**Pro Forma Solvency Information**”) set out in the section entitled “*Unaudited Pro Forma Solvency Information of the Enlarged Group*” of the £3,000,000,000 Euro Medium Term Note Programme prospectus dated 18 April 2018, which has been prepared on the basis described in notes 1 to 6, for illustrative purposes only, to provide information on the group solvency position at the level of Phoenix Group Holdings (the “**Company**”), as if the acquisition of Standard Life Assurance Limited and certain of its subsidiaries and Vebnet (Holdings) Limited and the associated financing (the “**Proposed Transaction**”) had taken place on 31 December 2017. The Pro Forma Solvency Information is presented on the Solvency II reporting basis expected to be applied by Phoenix Group Holdings for the period ending 31 December 2018 (the “**Solvency Accounting Policies**”). This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.1 of Annex IX to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Solvency Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma Solvency Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Solvency Information, nor do we accept

responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted solvency information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Solvency Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Solvency Information has been properly compiled on the basis stated and that such basis is consistent with the Solvency Accounting Policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma Solvency Information has been properly compiled on the basis stated; and
- such basis is consistent with the Solvency Accounting Policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex IX of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

REGULATORY OVERVIEW

Overview

The Group's operations are, and the Enlarged Group's operations will be, subject to extensive government regulation, including FSMA and other United Kingdom laws, including, for example, the Data Protection Act 1998 in relation to the processing of customer data. Some of these laws require, and will require, the relevant Group entity to be authorised, licensed or registered. Below is an overview of the regulatory framework for the insurance industry in the United Kingdom. While the bulk of the Group's activities are carried out in the UK, reference is also drawn to non-UK laws and regulation where appropriate.

FSMA

All of the Phoenix Life Companies in the United Kingdom are currently dual-regulated by the FCA (for conduct matters) and the PRA (for prudential matters), whilst other companies in the Group are solely regulated by the FCA (for both conduct and prudential matters).

Approach to regulation

The FCA employs a risk-based and proportionate approach to supervision comprising a firm systemic framework, which focuses on the continuous assessment of how firms manage the risks they create and identifying the root causes of risk.

The PRA employs a judgement-based, forward-looking and focused approach to regulation using a proactive intervention framework to identify and respond to risks at an early stage. The position of each insurer is reviewed regularly to ensure that the PRA's level of supervision is appropriate.

The FCA and PRA expect firms to avoid actions that jeopardise compliance with their statutory objectives. When the FCA and PRA are concerned that a firm may present a risk this may lead to negative consequences, including the requirement to maintain a higher level of regulatory capital (via capital "add-ons" under Solvency II) to match the higher perceived risks, and enforcement action where the risks identified breach the FCA and PRA's high-level principles or more prescriptive rules.

Overview of FSMA regulatory regime: dual regulators

The FCA and PRA regulate persons carrying out the regulated activities prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, as amended in the financial services sector. In this regard, the FCA and PRA are authorised to make rules and issue guidance in relation to a wide sphere of activities encompassing the governance of a firm, the way it conducts its business and the prudential supervision of firms. The FCA regulates the conduct of every authorised firm (including firms who are regulated by the PRA). The PRA has responsibility for carrying out the prudential regulation of banks, insurance companies and systemically important designated investment firms. These firms are referred to as "dual-regulated" because they are authorised and regulated by the PRA (for prudential matters) and also regulated by the FCA (for conduct matters).

Permission to carry on "Regulated Activities"

Under FSMA, no person may carry on or purport to carry on a regulated activity by way of business in the United Kingdom, in respect of a specified investment or property, unless he is an authorised or exempt person. A firm that is authorised by the FCA (and PRA, if relevant) to carry on regulated activities becomes an authorised person for the purposes of FSMA. "Regulated activities" are currently prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) and include insurance-related activities and investment activities (which includes managing investments), as well as

certain other activities such as establishing, operating and winding up stakeholder pension schemes, the mediation of general insurance and certain mortgage mediation and lending activities. Where an entity is domiciled outside the UK other regulatory authorities' authorisation may need to be sought. See "*Other regulatory systems*" below.

Authorisation procedure

In granting a UK firm's application for authorisation, the FCA and PRA (if applicable) may delineate the scope of, and include such restrictions on, the grant of permission as the relevant regulator deems appropriate. Dual-regulated firms must apply to the PRA for authorisation, whilst solo-regulated firms (i.e. firms regulated solely by the FCA) must apply to the FCA. In granting or varying the terms of a firm's permissions, the FCA and PRA must ensure that the firm meets certain threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business, and to be a fit and proper person, having regard to all the circumstances.

Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply (as relevant) with the FCA Handbook and the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA (the "**PRA Rulebook**") which contain detailed rules covering, among other things, systems and controls, conduct of business and prudential (i.e. capital) requirements.

Principles for Businesses

The FCA Handbook and the PRA Rulebook contain high-level standards for conducting financial services business in the United Kingdom, known as the Principles for Business (in the case of the FCA Handbook) and the Fundamental Rules (in the case of the PRA Rulebook). All firms are expected to comply with these standards, which cover the maintenance of adequate systems and controls, treating customers fairly, communicating with customers in a manner that is clear, fair and not misleading and being open and co-operative with the FCA and PRA.

Application of FSMA regulatory regime to the Group

Each of the Group's principal United Kingdom insurance and investment businesses is, and each of the Enlarged Group's principal United Kingdom insurance and investment businesses will be, subject to regulation and supervision by the FCA (and additionally, for dual-regulated firms, the PRA) in the carrying-on of the Group's regulated activities. The discussion below considers the main features of the regulatory regime applicable to the Group's insurance and pensions business in the United Kingdom.

Regulation applicable to the Group's insurance business

Supervision of management and change of control of authorised firms

One of the methods by which the FCA and PRA supervise the management of authorised firms is through the senior manager and Approved Persons regimes.

The senior manager regime became fully effective in April 2016. The senior manager regime is a new regulatory framework introduced by the FCA and PRA that aims to (i) make sure that insurance firms and groups have a clear and effective governance structure and (ii) enhance the accountability and responsibility of individual senior managers.

To some extent, the senior manager regime incorporates the existing Approved Persons regime, which provides that persons who hold positions of significant influence within an authorised firm must be pre-approved by the FCA and, if relevant, the PRA ("**Approved Persons**"). For dual-regulated firms, certain Approved Persons, such as directors, are approved by the PRA who will consult with the FCA in relation to such approval. This was further enhanced following the implementation of Solvency II in early 2016. The

PRA has introduced a specialist senior managers regime for United Kingdom insurers and reinsurers in-scope of Solvency II, which is known as the senior insurance managers regime (“SIMR”). In October 2017, the PRA made certain optimisations of the SIMR following public consultation. The United Kingdom government has announced its intention to apply the full senior manager regime to all authorised financial services firms during the course of 2018, including insurers.

Change of control of authorised firms

The FCA and PRA also regulate the acquisition and increase of control over authorised firms. Under FSMA, any person proposing to acquire control of, or increase (or decrease) control over, an authorised firm must first obtain the consent of the FCA and, if necessary, the PRA. In relation to dual-regulated firms, such as the Phoenix Life Companies, approval to the change of control is sought from the PRA who will consult with the FCA. In considering whether to grant or withhold its approval to the change of control, the FCA and PRA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by its acquisition of, or increase in, control.

A person (“A”), will acquire control (in accordance with Section 181 FSMA, and be a “controller”) of an authorised person (“B”) if they hold:

- (a) 10 per cent. or more of the shares in B or a parent undertaking of B (“P”);
- (b) 10 per cent. or more of the voting power in B or P; or
- (c) shares or voting power in B or P, as a result of which A is able to exercise significant influence over the management of B.

In order to determine whether person A or a group of persons is a controller, the holdings (shares or voting rights) of A and other persons acting in concert with A (pursuant to an explicit or implicit agreement between them), if any, are aggregated.

A person (“A”) will be treated as increasing (or decreasing) his control over an authorised firm (“B”), requiring prior approval from the FCA (and PRA, if appropriate) if:

- (a) the level of his percentage shareholding or voting power in B or P crosses the 10 per cent., 20 per cent., 30 per cent. or 50 per cent. threshold; or
- (b) if A becomes a parent undertaking of B.

Intervention and enforcement

The FCA and PRA have extensive powers to intervene in the affairs of an authorised firm and monitor compliance with their objectives, including withdrawing a firm’s authorisation, prohibiting individuals from carrying on regulated activities, suspending firms or individuals from undertaking regulated activities and fining firms or individuals who breach their rules.

The FCA can also sanction persons who commit market abuse and can apply to the High Court in England and Wales (the “Court”) for injunctions and restitution orders. In addition to its ability to apply sanctions for market abuse, the FCA has the power to prosecute criminal offences arising under FSMA, insider dealing under Part V of the Criminal Justice Act 1993 and breaches of the Money Laundering Regulations. The FCA has indicated that it is prepared to prosecute more cases in the criminal courts where appropriate.

The FCA and PRA may also vary or revoke a firm’s permission to carry on regulated activities or of a senior manager’s approved status for reasons including (i) if it is desirable to protect the interests of consumers or potential consumers; (ii) if the firm has not engaged in regulated activity for 12 months; or (iii) if it is failing to meet the threshold conditions for authorisation. The FCA and PRA have further powers to obtain

injunctions against authorised persons and to impose or seek restitution orders where persons have suffered loss. Once the FCA and PRA have made a decision to take enforcement action against an authorised firm or Approved Person (other than in the case of an application to the court for an injunction or restitution order), the person affected may refer the matter to the Upper Tribunal (Tax and Chancery Chamber). Breaches of certain FCA and PRA rules by an authorised firm may also give a private person, who suffers loss as a result of the breach, a right of action against the authorised firm for damages.

The FCA and PRA, although not creditors, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for the winding-up of an authorised firm or have standing to be heard in the voluntary winding-up of an authorised firm. It should be noted that insurers carrying on long-term insurance business cannot voluntarily be wound up without the consent of the PRA.

FCA Conduct of Business Rules

The FCA's Conduct of Business Rules (the "**Conduct of Business Rules**") apply to every authorised firm carrying on regulated activities in the United Kingdom and regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities. Whilst the FCA is primarily responsible for conduct regulation, the PRA will also seek to ensure that firms that it regulates conduct their business in a safe and sound manner.

The scope and range of obligations imposed on an authorised firm under the Conduct of Business Rules vary according to the scope of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorised firm by the Conduct of Business Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products and managing portfolios, manage conflicts of interest and report appropriately to its clients.

The FCA's Supervision Manual contains specific requirements at Appendix 2.15 for insurers that have ceased to take on new business and are in run-off. Equally some of the FCA Conduct of Business Rules, for example in relation to the sale of new policies, have no relevance to such companies.

FCA "Outcomes"

The FCA has three operational objectives: (i) to secure an appropriate degree of protection for consumers; (ii) to protect and enhance the integrity of the United Kingdom financial system; and (iii) to promote effective competition in the interests of consumers.

The first objective is central to the FCA's expectation of a firm's conduct and is underpinned by six Treating Customers Fairly outcomes: (i) consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture; (ii) products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly; (iii) consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale; (iv) where consumers receive advice, the advice is suitable and takes account of their circumstances; (v) consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect; and (vi) consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Prudential supervision

As set out above, in order to maintain authorised status under FSMA, a firm must continue to satisfy the threshold conditions for authorisation, which, among other things, require the firm to have adequate resources for the carrying on of its business. The FCA and PRA have published detailed rules relating to the

maintenance of minimum levels of regulatory capital for insurance and investment businesses in the Prudential Standards section of their FCA Handbook and PRA Rulebook, respectively. For further information, see the paragraph headed “*Solvency II*” below.

The FCA’s and PRA’s regulatory capital rules for insurers and investment firms are primarily contained in the Solvency II prudential framework.

The Financial Ombudsman Service

Authorised firms must have appropriate complaints handling procedures. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS which is intended to provide speedy, informal and cost effective dispute resolution of complaints made against authorised firms by individuals and small-business customers. The FOS is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as it determines to be just and appropriate to remedy a complaint. In January 2018, the FCA consulted on its proposal to allow approximately 160,000 small- and medium-sized enterprises to refer disputes to the FOS, which would significantly expand access to the FOS.

The Financial Services Compensation Scheme (“FSCS”)

The FSCS is intended to compensate individuals and small businesses for claims against a UK authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The scheme is also intended to promote confidence in the financial system by limiting the systemic risk that the failure of a single firm might trigger a wider loss of confidence in the relevant financial sector. The scheme covers banking, insurance, investment business and mortgage advice, reflecting the different kinds of business undertaken by authorised firms. It is funded primarily by levies on participating firms that consist of (i) a management expenses levy comprising a base costs levy that relates to the cost of running the FSCS each year and a specific cost for the running costs attributable to a specific funding class and (ii) a compensation costs levy which relates primarily to the costs incurred by the FSCS in paying compensation. Note that, in respect of SLIDAC, there is not an equivalent Irish compensation scheme for life insurers authorised in Ireland.

Insurance Guarantee Schemes

Currently there are no rules at the EEA level requiring the member states of the EU (“**EU Member States**”) to adopt insurance guarantee schemes such as that established by the FSCS. The European Commission has published a white paper in 2010 discussing the necessity of insurance guarantee schemes and indicated that it is considering proposing a directive with regard to such schemes. As at the date hereof, no proposals for this directive has been published. It is possible that if such a directive were introduced, it may affect the operation of the FSCS.

Conduct of Business requirements for insurance business

The Conduct of Business Rules issued by the FCA apply differing requirements to the sale of (i) general insurance contracts and (ii) long-term insurance contracts. Within (ii), more stringent requirements apply where the contract has an investment value or otherwise is a product which historically gave rise to mis-selling problems. Authorised firms which advise and sell packaged products (such as life insurance policies) are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability for private customers, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

As an insurer in run-off, a number of the Conduct of Business Rules relating to the sale of new policies do not concern the Phoenix Life Companies. However, there are certain rules relating to:

- information to be provided to existing policyholders;

- cancellation rights;
- the handling of claims;
- treating with-profit policyholders fairly; and
- pensions transfers and the open market option,

which apply regardless of whether or not the insurer is actively selling its products.

Gender discrimination issues

In 2011, the Court of Justice of the European Communities ruled against the use of gender in setting premiums or benefits under insurance contracts. The effect of this ruling was postponed to 21 December 2012. The decision of the Court of Justice was implemented into United Kingdom law by the Equality Act 2010 (Amendment) Regulations 2012, which amends the Equality Act 2010. The amendments to the Equality Act 2010, which took effect on 21 December 2012, remove a provision in the Equality Act 2010 which had previously allowed gender-sensitive pricing of insurance premiums and benefits. It affects, among other things, the pricing of annuities, life insurance policies and the annuity rates which may be offered when pension policies mature.

With-profit business

The FCA and PRA coordinate their supervision of insurers. The FCA has responsibility for monitoring whether any changes to benefits or payments are consistent with the insurer's previous communications to policyholders, and the insurer's overriding obligation to treat customers fairly. The FCA and PRA have published a Memorandum of Understanding which sets out how the two regulators will co-operate in their supervision of insurers with policyholders who hold with-profits insurance policies. The FCA is responsible for satisfying itself that firms are behaving fairly in relation to the exercise of discretion whilst the PRA's focus is on ensuring that discretionary increases in liabilities do not adversely affect the insurer's ability to meet, and continue to meet, the PRA's standards for safety and soundness. Given the respective focuses of the PRA and FCA, as of 1 January 2016, the PRA deleted certain of its conduct-related rules relating to with-profits policyholders from its PRA Rulebook and those rules now remain only in the FCA Handbook.

Changes were also made to the corresponding FCA rules on 1 January 2016 in order to implement Solvency II, including in relation to conduct issues and to make changes to certain definitions. For further information, see the paragraph headed "*Solvency II*" below.

Actuarial functions

Every insurance company that is regulated under Solvency II must appoint one or more actuaries (external or in-house) to perform the "actuarial function" in respect of all classes of its long-term insurance business. In addition, if it is regulated by the PRA and has any with-profit business, it must appoint one or more actuaries to perform the "with-profits actuary function" in respect of its with-profit business.

The PRA Rulebook requires that an actuary appointed to perform the with-profits actuary function must, among other things: (i) advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which the actuary has been appointed; (ii) advise the firm's governing body as to whether the assumptions used to calculate the future discretionary benefits within the firm's relevant technical provisions are consistent with the firm's Principles and Practices of Financial Management ("**PPFM**") in respect of those classes of the firm's with-profits insurance business; and (iii) at least once a year, report to the firm's governing body on key aspects (including those aspects of the firm's application of its PPFM on which

the advice described has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of with-profits insurance business of the firm.

Distribution of profits and with-profit business

The PRA Rulebook requires firms carrying on with-profits business to ensure that their distribution strategies are affordable and sustainable. For further information, see the paragraph headed “*Solvency II*” below.

The PRA Rulebook also mandates that firms carrying on with-profit business must:

- define and make publicly available the PPFM applied in their management of with-profit funds;
- ensure their governance arrangements offer assurance that they have managed their funds in line with the PPFM they have established and published;
- produce annual reports for with-profit policyholders on how they have complied with this obligation, including how they have addressed any competing or conflicting rights, interests or expectations of policyholders and, if applicable, shareholders;
- comply with (i) modified regulatory reporting requirements designed to achieve the PRA’s objective of making directors and senior management more explicitly responsible for setting up technical provisions and other decisions taken on actuarial advice and (ii) new audit requirements for liabilities; and
- comply with consequential changes to certification in the insurance returns.

Transfers of insurance business

Any transfer of United Kingdom insurance business (as defined under FSMA) must be effected in accordance with Part VII of FSMA and relevant secondary legislation, which requires a scheme of transfer to be prepared and approved by the High Court in England and Wales (the “**Court**”). Amongst other things, a report of an independent expert is required on the terms of the scheme, which would consider whether the proposed transfer would be prejudicial to policyholders. The regulators also have an important role in a transfer under Part VII of FSMA, including in relation to certain approvals for specific steps in the transfer process (such as the approval by the PRA (in consultation with the FCA) of the appointment of the independent expert and the form of the independent expert’s report) and in advising the Court whether a transfer should be approved. A Part VII scheme of transfer enables direct insurers and reinsurers to transfer all or part of their books of business to another approved insurer by operation of law without the need for individual policyholder consents, although policyholders have the right to object to the proposed scheme at the Court hearing. A scheme of transfer may also allow for the transfer of assets and other contracts related to the business so as to give proper effect to the transfer. A transfer of insurance business means a transfer of insurance policies and should be distinguished from the change of control of a business effected by a transfer of shares in an insurance company.

Solvency II

Solvency II has applied since 1 January 2016.

The Solvency II prudential framework has updated, among other things, the existing EU life, non-life, reinsurance and insurance groups directives. The main aim of the framework is to protect policyholders through establishing prudential requirements better matched to the true risks of the business, taking into account other regulatory objectives of ensuring the financial stability of the insurance industry and stability of the markets. Like the Basel III reforms introduced in relation to banks in 2014, the new approach is based on the concept of three pillars: quantitative requirements (the amount of regulatory capital an insurer should hold), qualitative requirements on undertakings such as risk management as well as supervisory activities; and

enhanced disclosure and transparency requirements. It is also directionally consistent with Pillar 2, being on an economic capital basis.

Solvency II contains rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of an MCR and a higher and more risk sensitive SCR;
- what regulatory capital is eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital may so count;
- what regulatory capital or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- to what extent a firm's regulatory capital models may be used to calculate the SCR;
- governance requirements including risk management processes;
- considerably expanded reporting requirements covering (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process and (ii) matters to be published in a "Solvency and Financial Condition Report";
- rules providing for the SCR to be supplemented by a "regulatory capital add-on" in appropriate cases, the add-on to be imposed by the relevant supervisor (the PRA in the case of United Kingdom firms and the CBI in the case of SLIDAC);
- rules on insurance products which are linked to the value of specific property or indices;
- the application of the above requirements across insurance groups, including a specific regime for insurance groups with centralised risk management and an enhanced role for the "group supervisor" of international groups, who will be required to work in conjunction with a "college of supervisors" responsible for specific solo members of the group; and
- provision for the supervision of insurance groups headed by an insurance company or insurance holding company with a head office outside the EEA.

Level 2 rules, which supplement Solvency II with more detail, were adopted by the European Commission on 10 October 2014 and entered into force on 18 January 2015. On 30 September 2015, the European Commission proposed amendments to these rules as part its initiative to build a Capital Markets Union. These amendments included, amongst other things, proposals to alter certain regulatory capital requirements of Solvency II with the intention of providing insurance companies with incentives to invest for the long-term in infrastructure and European Long-Term Investment Funds. The European Commission's Delegated Regulation making the relevant amendments was subsequently published on 1 April 2016 in the Official Journal of the EU and entered into force on 2 April 2016. The United Kingdom House of Commons Treasury Select Committee launched an inquiry into Solvency II which explored the impact of the new regime and the options now available to the United Kingdom in the light of its vote at the national referendum of June 2016 to withdraw from the European Union. The outcome of the inquiry was published on 27 October 2017 and recommends that the PRA should have a pragmatic discussion with the insurance industry. This should focus on the scope for amendments and increased proportionality in the implementation of Solvency II. In the fourth quarter of 2017 and January 2018, the PRA published a series of consultation papers seeking to optimise the implementation of Solvency II in the United Kingdom. The consultations cover: (i) guidance on

the eligibility of assets for the “matching adjustment”; (ii) the minor model change process; and (iii) a reduced reporting burden on firms.

The United Kingdom rules generally replicate the Level 2 implementing rules other than in certain instances, such as the need to provide for with-profit funds in the context of long-term insurance funds no longer being recognised under Solvency II. Under Solvency II, “ring-fenced funds” are funds the assets of which may have a reduced capacity to fully absorb losses in other parts of the insurer on a going concern basis. The PRA rules contain a requirement (which came into effect on 1 January 2016) that firms hold, within each of their with-profits funds, assets that are sufficient to meet the with-profits liabilities of such funds. In March 2015, the FCA published a policy statement containing its own final rules to implement Solvency II. The final rules use a new definition of “with-profits fund surplus” in relation to Solvency II firms’ with-profits business, being, in summary, the difference between the assets in the fund and the liabilities in the fund. Only the with-profits fund surplus may be distributed to policyholders and shareholders. The PRA has also stated in a supervisory statement that restrictions on assets and Own Funds resulting from the nature of, and regulatory regime for, with-profits insurance business in the United Kingdom will generally mean that each with-profits fund displays the characteristics of a ring-fenced fund for the purposes of Solvency II. In the same supervisory statement, the PRA also notes that firms sometimes have support arrangements in place which seek to provide support to a with-profits fund from financial resources outside that fund; the final rules require that the terms of any such support arrangement be clarified and codified. In addition, depending on the facts or circumstances, the Board may apply capital management policies to control the distribution of capital.

The Solvency II framework includes a regime for insurance groups and specific provision for groups the parent undertakings of which have their head offices outside the EEA. This applies to PGH, as it is outside the EEA.

The treatment of such groups depends, among other things, on whether the jurisdiction in which the parent has its head office is determined to have an equivalent group regime. The equivalence of non-EEA countries is relevant to three distinct provisions of Solvency II:

- for the purpose of determining whether reinsurance ceded to a reinsurer authorised in that jurisdiction should be treated in the same way as reinsurance ceded to an EEA firm;
- for the purpose of determining whether in assessing group solvency, a non-EEA firm should (i) be treated as if it were an EEA firm or whether (ii) its contribution to group solvency may be determined by reference to local rules;
- In that case a determination of equivalence allows the group solvency of the participating undertaking to be calculated taking into account, as regards the firm, its SCR and Own Funds eligible to satisfy that requirement as laid down by the third country concerned. This only applies where the deduction and aggregation method of calculating group solvency is used, rather than the default accounting consolidation-based method; and
- for the purpose of determining whether the standard of group supervision in the jurisdiction concerned is equivalent to EEA standards. If that group supervision is deemed to be equivalent it shall be relied upon by EU Member States. However, in the absence of an equivalence determination (or in a temporarily equivalent third country where the “balance sheet total” of the EEA firm is greater than that of the third country parent undertaking), such groups will be supervised within the EEA either by applying Solvency II rules at the worldwide group level or by applying ‘other methods’ which ensure appropriate group supervision. Such methods may include a requirement for the establishment of an insurance holding company or mixed financial holding company within the EEA and the application of Solvency II rules to the group headed by that holding company.

A determination of ‘equivalence’ either by the European Commission generally, or by the group supervisor in relation to a specific group, confirms that a third country’s insurance regime is deemed to have an equivalent level of protection to that provided by Solvency II. However, the European Commission may also recognise equivalence on a temporary or provisional basis.

A PRA waiver in relation to the Group was in place for the period from 1 January 2016 to 30 June 2017. This permitted Group supervision to take place at the level of the ultimate EEA insurance holding company, PLHL, via “other methods” as opposed to full Group supervision. This waiver expired on 30 June 2017. For further information on the Group’s structure, see the section headed “*Information on the Group - Structure of the Group*”.

Certain of the Group’s subsidiaries are, and will be, authorised by the FCA to carry on investment business. These entities are subject to regulation and supervision by the FCA and must comply with the FCA’s conduct of business and prudential rules made under FSMA.

Many insurance companies and insurance groups expect to benefit from using internal models to calculate their SCR (or specific risks or major business units within the SCR). However, they require supervisory approval to do this, as the PRA wants to ensure ongoing compliance with the Solvency II internal model requirements. The process of obtaining that approval is a rigorous one involving a full review of the firm’s governance arrangements and proof that the internal modelling is fully used within the firm’s business. Once a firm’s internal model has been approved, it must report internal model outputs using the PRA’s templates, so that the PRA can supervise internal models on an ongoing basis. The PRA may also impose regulatory capital add-ons if it considers that the resultant regulatory capital requirement does not reflect the risk exposures of the relevant firm or insurance group. On 7 December 2015, PGH announced that the PRA had approved the Group’s Solvency II Internal Model application for the PLHL group and its subsidiaries. During March 2017, subsequent approval was received to extend the Internal Model to include the SunLife Embassy Business. In June 2017, approval was received from the PRA to extend the scope of the Internal Model to the ultimate parent company, PGH. This Internal Model change covered all entities above PLHL in the Group structure. The Group made an application to extend its Internal Model to include Abbey Life and this was approved on 1 March 2018.

The Group notes that the technical implementation of Solvency II resulted in a significant increase in the technical provisions and regulatory capital requirements of the Phoenix Life Companies. However, these increases were mitigated to an extent by the introduction of transitional provisions, included in the Solvency II Directive, which are designed to ensure a smooth transition to the new regime. On 17 December 2015, the PRA confirmed that it had approved an application by the Phoenix Life Companies to apply Transitional Measures on Technical Provisions. This allows for a transitional deduction on technical provisions which is the difference between the net technical provisions calculated in accordance with the Solvency II rules and the net technical provisions calculated in accordance with the previous regime. The benefit of the transitional provisions will be phased out over a 16 year period. There remains some uncertainty over the pace of run-off within that period. If the pace of run-off is faster than expected then this may defer the amount or timing of future cash releases from the Phoenix Life Companies.

It should be noted that SLIDAC is authorised and regulated by the CBI. Consequently, Solvency II (and any relevant Irish implementing provisions) are applied by the CBI, not the UK regulators. More generally, the prudential regulation of SLIDAC is a matter for the CBI, although Solvency II is a European directive and therefore many of the same principles and rules outlined above apply, notwithstanding the fact that certain discrete matters remain the subject of national discretion and therefore variation.

For further information, see also the risk factor entitled “*Risk Factors - Regulatory capital and other requirements may change*”.

Conduct of Business requirements for investment businesses and MiFID II

MiFID II, which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation ((EU) No 600/2014); and (iii) secondary legislation in the form of Delegated Acts made thereunder.

MiFID II, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use ‘passports’ to conduct MiFID investment services in other EU Member States.

MiFID II is more wide ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

Data protection

The data protection law currently in effect in the UK is derived from the first data Protection Directive (Directive 95/46/EC). On 25 May 2018, the GDPR will replace the existing regime set out in Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The regulation contains measures that seek to harmonise data protection procedures and enforcement across the EU. It will be directly binding on data controllers in all member states immediately upon coming into effect without the need for implementation by the member states. Importantly, the penalties for breach of the new regime will be much more substantial.

The UK government has introduced the Data Protection Bill 2017 to Parliament, which, at the date hereof, was in the parliamentary scrutiny phase. If adopted, this Bill would exercise on the UK’s part the limited discretion accorded to member states under the GDPR and deal with data processing issues not covered by the GDPR. In Ireland, this discretion is to be exercised by the Data Protection Bill 2018, which has been passed by the Seanad (the upper house of the Irish legislature) and which will next proceed through the Dáil (the lower house). Germany adopted national legislation in response to the GDPR in a new version of the Federal Data Protection Act (the “Bundesdatenschutzgesetz”) in late April 2017, which will become effective together with the GDPR on 25 May 2018. The German legislator has used the “opening clauses” that allow member states discretion to customise certain provisions to tighten the rules over personal data of German citizens above and beyond what is required by the GDPR.

FCA thematic review

The thematic review on the fair treatment of long standing customers in the life insurance sector

The Phoenix Life Companies charge customers “exit charges” upon change of provider and “paid up charges” upon cessation of payment of regular premia. These charges apply when customers switch their pension policies to another provider or realising their pension benefits prior to their specified retirement date (where a customer is over 55 years of age and therefore eligible to realise some of the benefits from its pension pot). On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. The FCA found a “mixed picture” where most firms reviewed demonstrated good practice in some areas but poor practice in others. A small number of firms were found to

be delivering poor customer outcomes across a majority of the areas assessed. In particular, the FCA had concerns about:

- lack of board and senior management oversight of closed book customers and outcomes;
- whether customers were aware of the effect of exit and paid-up charges on their policies and the quality of information provision on the economic effect of exit and paid-up charges;
- firms' behaviour, policies and attitude towards applying exit charges;
- the impact of exit and paid-up charges on customers shopping around and customer choice;
- the absence, within most firms, of a review of products (and related charges) to assess whether customers were getting fair outcomes; and
- where there are product reviews, over-reliance or overemphasis on compliance with contractual terms and conditions even where actual customer detriment is identified.

In December 2016, the FCA published its final guidance on the basis of its thematic review, setting out its expectations on life insurance firms to ensure that their closed-book customers are treated fairly. Firms are expected to identify the outcomes they believe are fair to deliver to their customers and, where poor customer outcomes are identified, take steps to address them. This guidance will apply to Phoenix Life Companies and SLAL policies and customers. The FCA has also notified ALAC of its final conclusions regarding the outcome of the review. Following this, ALAC has agreed a number of actions with the FCA to address the findings from the thematic review including enhancements to communications, a programme of product reviews and further work to reduce the volume of "goneaway" customers. Significant progress has been made and a number of items addressed. Work continues to address the outstanding points.

A number of the firms which are the subject of the review are now the subject of additional FCA investigations, to explore whether remedial and/or disciplinary action is necessary or appropriate in respect of exit or paid up charges being applied. ALAC is one of these firms. Additionally, ALAC is one of two firms being investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. This investigation into wider contraventions of regulatory requirements focuses on behaviour from December 2008. The FCA has stated that these investigations are designed to establish the reasons for the practices within firms, whether customers have suffered detriment as a result and how widespread any practices are within these firms.

The FCA has not yet notified ALAC of its final conclusions regarding the outcome of the enforcement investigation. It is possible that, as a result of the investigation, ALAC may incur costs as a result of financial penalties (which may be incurred shortly after the FCA publishes its final conclusions) and/or other costs associated with the FCA's findings. Deutsche Bank has provided PLHL with an indemnity, with a duration of six years, in respect of such exposures. The maximum amount that can be claimed under the indemnity (when aggregated with claims under the indemnity in respect of the thematic review on annuity sales practices, as discussed further below) is £175 million and it applies to all regulatory fines and 60 to 90 per cent. of the costs of customer remediation. While this indemnity may mitigate ALAC's costs (and accordingly, the Group's costs), some costs will fall outside the scope of the indemnity and/or may exceed the maximum amount PLHL can claim under the indemnity and/or become irrecoverable should Deutsche Bank become subject to insolvency or any other analogous events, meaning that ALAC (and accordingly, the Group) will ultimately retain liability for them. In addition, ALAC may also be the subject of private censure, public censure, adverse publicity and/or resulting reputational damage, which may in turn damage the Group, the effect of which will not be mitigated by any indemnity.

In May 2016, the FCA launched a consultation on proposals to cap early exit pension charges, both for existing contracts that contain an early exit charge (where it is proposed the cap would be 1 per cent. of policy value) and also new contracts (where no exit charge would be permitted). On 15 November 2016, the FCA announced that, from 31 March 2017, where a customer is over 55 years of age and therefore eligible to realise benefits from its pension pot, early exit charges will be capped at 1 per cent. of the value of existing contract-based personal pensions. For customers over 55 years of age, early exit charges that are currently set at less than 1 per cent. have not been increased. In addition, a cap on occupational schemes was introduced by the Department of Work and Pensions in October 2017. The Group introduced these changes in 2017 for all pension customers.

In June 2017, the FCA issued a request for information to assist them with planning the scope of their forthcoming Thematic Review of the Fair Treatment of with-profits customers. This information was supplied in August 2017. This work is ongoing.

For further information, see the risk factor entitled “*Risk Factors – Risks relating to the Group - The thematic review on the fair treatment of longstanding customers in the life insurance sector may affect the Group’s business*”.

The thematic review on annuity sales practices

The Phoenix Life Companies and SLAL sell annuities. Currently, across the sector, a large number of customers who have pension policies with the Group buy an annuity from the firm that holds their pension policies. In other words, customers with pension policies often chose to use their savings to buy an annuity issued by the Group.

The FCA has conducted a number of reviews and studies in respect of the issue of annuity sales. On 11 December 2014, the FCA published the findings of its thematic review into annuity sales practices. In relation to the annuity sales practices report, the FCA concluded that firms need to improve the way in which they communicate with their customers, particularly during the period when customers are coming up to retirement and making their choices as to their retirement income provision. In particular the FCA found that:

- consumers did not shop around and/or switch providers when they chose to invest their pension pot in an annuity;
- firms’ sales practices curtailed shopping around and product switching;
- the code of conduct on retirement choices, which is produced by the Association of British Insurers, was not being applied consistently (or in some cases, at all); and
- some consumers were buying the wrong type of annuity (e.g., not buying an enhanced annuity when they were eligible for one).

As a result of the above, the FCA concluded that some consumers within the sector might be suffering detriment because they were not receiving potentially higher income.

The FCA asked certain relevant firms to carry out further work and gather more evidence to allow the FCA to reach conclusions on the basis of statistically significant information (rather than anecdotal or small sampling), focusing on whether customers have shopped around and purchased a standard, rather than an enhanced, annuity.

On 14 October 2016, the FCA published a further report on its thematic review of non-advised annuity sales practices (TR16/7). The review found no evidence of industry-wide or systemic failure to provide customers with sufficient information about enhanced annuities through non-advised sales resulting in actual loss. However, the FCA:

- identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA has asked those firms to review their practices since 2008, appoint skilled persons to oversee the review, and provide redress where necessary; and
- identified other areas of possible concern, including in relation to the recording and maintenance of records of calls.

The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised, to ensure their communications and sales process provide customers with the information they need when they need it. The FCA has also encouraged any customers who feel they were provided with insufficient information about enhanced annuities at the time they chose their annuity to contact their annuity provider. The Group has reviewed the detail of the FCA feedback and continues to make improvements to customer service in line with Group strategy, in particular around transparency of information.

Following the thematic review, on 23 May 2017, the FCA confirmed to ALAC that it would be required to undertake a “past business review” covering all annuities sales over a set period. ALAC has appointed Grant Thornton and PwC to assist with this exercise, which is now underway. The FCA commissioned a skilled person, Watson Towers Willis, to develop a “Redress Calculator”, which enables affected firms to adopt a consistent approach to calculating redress. Affected firms are required to fund the development of this.

The review may result in a further change in law, regulation and/or regulatory emphasis, changes in the Group’s practices and/or prompt future regulatory interventions. The FCA may require affected firms to carry out further remediation in respect of detriment suffered by customers as a result of historic practices. The FCA may also decide to impose further financial penalties or compulsory customer remediation (depending on circumstances and its findings). It is not currently possible to assess what further actions the FCA may require affected firms to take or the effect such actions, if required, may have on the business of affected firms.

In addition to the above, on 26 May 2017, the FCA published a policy statement (PS17/12) containing final rules requiring firms to inform consumers, by providing an information prompt, how much they could gain from “shopping around” and switching provider, before they buy an annuity. Firms must achieve compliance with these rules by 1 March 2018.

For further information, see the risk factor entitled “*Risk Factors – Risks relating to the Group - The thematic review on annuity sales practices may affect the Group’s business*”.

Other regulatory systems

While most of the Group’s activities are in the UK (and therefore solely within the scope of the UK regulatory system), the Group includes entities which operate outside the UK in a regulated environment. In particular, SLIDAC is authorised and regulated by the CBI. As previously stated, the prudential and conduct regulation of SLIDAC is a matter for the CBI and Irish law and regulation.

When policies are sold to policyholders situated in an EU state the regulation of that state may apply to the sale and administration of such policies, even though the transacting Group entity may be authorised and regulated in another jurisdiction. Members of the Group and the Enlarged Group carry on business in other EU member states under EU-wide passporting rights. Of particular note is SLIDAC, which is intended to operate the German business of SLAL after Brexit, and therefore certain of its activities will be subject to German regulation. Although those entities using passporting rights do not need to be authorised in each of the EU member states in which they carry on activities within the scope of those rights, such entities are required to comply with certain local laws and regulatory requirements, for example in respect of conduct of business rules, in relation to certain activities carried on in those countries. As a result, the law and regulation

of various EU member states applies to the activities of certain members of the Group when they are dealing with customers in EU states.

TAXATION

The following is a general description of certain Cayman Islands, Irish and UK tax considerations relating to the Notes or Coupons, as well as a description of FATCA. It does not purport to be a complete analysis of all tax considerations relating to the Notes or Coupons whether in those countries or elsewhere. It relates to the position of persons who are the absolute beneficial owners of the Notes or Coupons and some aspects do not apply to certain classes of taxpayer (such as dealers and Noteholders who are connected or associated with the relevant Issuer for relevant tax purposes). The statements in this section do not constitute tax or legal advice. Prospective Noteholders who may be subject to tax in a jurisdiction other than the UK, Ireland or the Cayman Islands or who may be unsure as to their tax position should seek their own professional advice. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Investors should also note that the appointment by an investor in Notes or Coupons, or any person through which an investor holds Notes or Coupons, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Cayman Islands

Noteholders are not subject to any tax in the Cayman Islands in respect of the holding, sale or other disposition of Notes. Payments of interest on the Notes may be made by PGH without withholding or deductions for or on account of Cayman Islands income tax. The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

PGH is registered as an “exempted company” pursuant to the Companies Law (as amended) of the Cayman Islands. PGH has received an undertaking from the Governor-in-Cabinet of the Cayman Islands in accordance with Section 6 of the Tax Concession Law (as amended) of the Cayman Islands that, for a period of 30 years from 11 May 2010 no law enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to PGH or its operations; and in addition that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of PGH or (ii) by way of the withholding in whole or in part of payment of dividend or other distribution of income or capital by PGH to its members or a payment of principal or interest or other sums due under a debenture or other obligation of PGH. Accordingly, it is not envisaged that PGH will be subject to any taxation in the Cayman Islands other than in relation to incidental registry fees and stamp duties on certain instruments entered into by it and no withholding taxes should be imposed by the Cayman Islands on any payment in respect of Senior Notes by PGH pursuant to the Guarantee.

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the Cayman Islands.

Ireland

Taxation of Noteholders

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such

as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. PGHC will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are quoted Eurobonds i.e. securities which are issued by a company (such as PGHC), which are listed on a recognised stock exchange (such as the London Stock Exchange) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
 - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
 - (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and
- (c) interest which is profit dependent and which is paid out on the Notes could, under certain anti-avoidance provisions, be re-characterised as a distribution and subject to dividend withholding tax in certain circumstances. However, this should not apply on the basis of a confirmation by PGHC that, at the time the Notes were issued, PGHC was not in possession or aware of any information which could reasonably be taken to indicate that interest or other distributions paid on the Notes would not be subject, without reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that relevant territory by persons from sources outside that relevant territory, where the term “relevant territory” means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty (the “**Relevant Territory**”).

Thus, so long as the Notes continue to be quoted on the London Stock Exchange, are held in Euroclear and/or Clearstream, Luxembourg, and PGHC has provided the confirmations set out in paragraph (c) above, interest on the Notes can be paid by any paying agent acting on behalf of PGHC free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a paying agent outside Ireland and PGHC has provided the confirmations set out in paragraph (c) above.

Deductibility of Interest

New rules contained in the Finance Act 2016 restrict deductibility of interest paid by a qualifying company that is profit dependent or exceeds a reasonable commercial return to the extent that the interest is associated with the business of a qualifying company of holding ‘specified mortgages’, subject to a number of exceptions. A ‘specified mortgage’ for this purpose is (a) a loan which is secured on, and which derives its value from, or the greater part of its value from, directly or indirectly, Irish land; or (b) a ‘specified agreement’ (effectively a profit dependent derivative) which derives all of its value, or the greater part of its value, directly or indirectly, from Irish land or a loan to which (a) applies; or (c) the portion of a specified

security (essentially a security in respect of which, if the Finance Act 2016 rules did not apply to, payments on that security would be deductible under section 110 of the TCA), is attributable to the specified property business in accordance with the new rules.

The legislation treats the holding of such specified mortgages as a separate business to the rest of the qualifying company's activities. The qualifying company is taxed on any profit that is attributable to that business at 25% and any such interest that is profit dependent or exceeds a reasonable commercial return is not deductible, subject to a number of exceptions, and potentially subject to Irish withholding tax at 20%.

Accordingly, on the basis that PGHC has not acquired and will not acquire 'specified mortgages' for the purposes of Section 110 of the TCA, the new rules should not apply to this transaction.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by PGHC are exempt from income tax so long as PGHC is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of PGHC. Secondly, interest payments made by PGHC in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that territory by companies from sources outside that territory or the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by PGHC free of withholding tax under the quoted Eurobond exemption is exempt from income tax where the recipient is a person not resident in Ireland and resident in a relevant territory or is a company which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a relevant territory are resident for the purposes of tax in a relevant territory and is not under the control of person(s) who are not so resident or is a company where the principal class of shares of the company or its 75% parent is substantially and regularly traded on a recognised stock exchange. For the purpose of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or, in any other case, the law of the country in which the recipient

claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, the charge to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A holder of Notes will not be subject to Irish tax on capital gains on a disposal of Notes unless (i) such holder is either resident or ordinarily resident in Ireland or (ii) such holder carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held or (iii) the Notes cease to be actively and substantially traded on a stock exchange in circumstances where the Notes derive their value or more than 50% of their value from Irish real estate, mineral rights or exploration rights.

Capital Acquisitions Tax

A gift or inheritance of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, is currently levied at 33 per cent) if either (i) the disponent or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponent is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as PGHC is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of PGHC's business), on the issue, transfer or redemption of the Notes.

United Kingdom

General

The comments in this part are of a general nature and are not intended to be exhaustive. They are based on current United Kingdom ("UK") tax law as applied in England and Wales and published HM Revenue & Customs practice (there can be no assurance that HM Revenue & Customs will apply its published practice). They assume that there will be no substitutions of the relevant Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). They relate only to the UK withholding tax treatment of payments of interest (as that term is understood for UK tax purposes) in respect of Notes. They do not deal with any other UK taxation implications of acquiring, holding or disposing of Notes. The UK tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax

in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes by PGHC only may be made without deduction or withholding on account of UK income tax provided that such interest does not have a UK source.

Payment of interest by PGH and payments of interest by PGHC which have a UK source may still be made by the relevant Issuer without deduction of or withholding on account of UK income tax provided that the Notes carry a right to interest and 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. Notes will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange.

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

Payments of interest on Notes may be made without deduction of or withholding on account of UK tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, including payments of interest by PGHC, an amount must generally be withheld from payments of interest on the Notes which have a UK source on account of UK income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HM Revenue & Customs can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Payments by Guarantor

The UK withholding tax treatment of payments by the Guarantor under the terms of the Guarantee which have a UK source is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if the Guarantor makes any such payments, these may be subject to UK withholding tax at the basic rate (currently 20 per cent.).

FATCA Withholding

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. Each of PGHC and PGH believes that it is a foreign financial institution for these purposes. A number of jurisdictions (including Ireland and the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of these rules to instruments such as the Notes, including whether withholding

would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, is not clear at this time. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthrough payments prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

Cayman Islands Automatic Information Exchange Agreement

On 29 October 2014, the Cayman Islands along with 50 other jurisdictions signed a Multilateral Competent Authority agreement to demonstrate its commitment to implement the Common Reporting Standard (“**CRS**”) issued by the Organisation for Economic Cooperation and Development. Local regulations, which require due diligence to be undertaken on new and pre-existing accounts, were enacted on 16 October 2015 and 14 December 2016 with reporting on such accounts commencing during 2017. More than 100 countries have since agreed to implement the CRS, which imposes reporting and other obligations with respect to investors who are tax resident in other signatory jurisdictions (“**Reportable Jurisdictions**”).

Holders of Notes who are resident in Reportable Jurisdictions for tax purposes should be aware that the CRS operates similar to the intergovernmental agreement with the United States that implements the United States FATCA legislation. Under this Multilateral Competent Authority agreement, the Cayman Islands will, subject to any applicable exemptions, require PGH to identify any direct or indirect Reportable Jurisdiction resident account holders (including debt holders and equity holders) in PGH and obtain and provide to the Cayman Islands Tax Information Authority certain information about such account holders. Such information will be automatically exchanged by the Cayman Islands Tax Information Authority with the relevant Reportable Jurisdiction tax authorities. A Noteholder that is resident in a Reportable Jurisdiction for tax purposes or is an entity that is identified as having one or more controlling persons that is resident in a Reportable Jurisdiction for tax purposes will generally be required to provide to PGH and its agents information which identifies such Reportable Jurisdiction tax resident persons and the extent of their respective interests in PGH. Noteholders who may be affected should consult their own tax advisers regarding the possible implications of these rules.

SUBSCRIPTION AND SALE

Summary of Programme Agreement

Subject to the terms and on the conditions contained in a Programme Agreement dated 21 December 2016 as amended and restated on 18 April 2018 (the “**Programme Agreement**”) between PGHC, PGH the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the relevant Issuer to the Permanent Dealers. However, each of the Issuers has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The relevant Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. PGH has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

Each of the Issuers has agreed to indemnify the Dealers against certain liabilities in connection with any relevant offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

Selling Restrictions

U.S.

Each Dealer has acknowledged, and each further Dealer under the Programme Agreement will be required to acknowledge that, the Notes have not been and will not be registered under the Securities Act, and the Notes may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the U.S. or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has agreed that, and each further Dealer appointed under the Programme Agreement will be required to agree that, except as permitted by the Programme Agreement, it will not offer or sell or, in the case of Bearer Notes, deliver Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of any identifiable tranche of which such Notes are a part, as determined, and certified to the relevant Issuer, by the relevant Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by the relevant lead manager), within the U.S. or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the U.S. or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the U.S. by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

UK

Each Permanent Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or, as the case may be, the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes (or Pricing Supplement, in the case of PD Exempt Notes) specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”); and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations. Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or distributed, and will not offer, sell or distribute any Notes or any copy of this Prospectus or any other document relating to the Notes in the Republic of Italy (“**Italy**”) in an offer to the public of financial products under the meaning of Article 1, paragraph 1, letter t) of Legislative Decree no. 58 of 24 February 1998 (the “**Consolidated Financial Services Act**”), except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of the Consolidated Financial Services Act and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**CONSOB Regulation**”), all as amended from time to time, provided that such qualified investors will act in their capacity and not as depositaries or nominees for other shareholders; or
- (b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under the Consolidated Financial Services Act or the CONSOB Regulation. Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under (a) or (b) above must be:
 - (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and the relevant implementing instructions of the Bank of Italy (*Istruzioni di Vigilanza per le Banche della Banca d’Italia*), the Consolidated Financial Services Act and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;
 - (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and
 - (iii) in compliance with any securities, tax, exchange control and any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by, *inter alia*, CONSOB or the Bank of Italy or other competent authority.

Any investor purchasing the Notes will be solely responsible for ensuring that any offer or resale of the Notes it purchased occurs in compliance with any applicable laws and regulations. This Prospectus and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this Prospectus may rely on it or its contents. In any event the Notes shall not be offered or sold to any individuals in Italy in either the primary or the secondary market.

France

Each of the Permanent Dealers has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France, it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms or any other offering material relating to the Notes, and such offers, sales and distributions have been and

shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (ii) qualified investors (*investisseurs qualifiés*), and/or (iii) a limited circle of investors (*cercle restreint*) acting for their own account, all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 and D.411-4 of the French Code *monétaire et financier*.

Switzerland

Each Permanent Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that this Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, nor the relevant Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, for example, the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

Hong Kong

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571) of the Hong Kong (Winding Up and Miscellaneous Provisions) and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Chapter 32) of the Hong Kong (Winding Up and Miscellaneous Provisions) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Permanent Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”).

Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than:

- (a) to an institutional investor under Section 274 of the SFA;
- (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (A) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (B) where no consideration is or will be given for the transfer;
- (C) where the transfer is by operation of law or as specified in Section 276(7) of the SFA; or
- (D) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Ireland

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulations 2017 (as amended, the “**MiFID II Regulations**”), including, without limitation, Regulation 5 (Requirement for authorisation (and certain provisions concerning MTFs and OTFs)) thereof, or any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the “**Companies Act**”), the Central Bank Acts 1942-2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank under Section 1363 of the Companies Act; and

- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Market Abuse Regulation (EU 596/2014) (as amended) and any rules and guidance issued by the Central Bank under Section 1370 of the Companies Act.

Cayman Islands

Pursuant to the Companies Law (as amended) of the Cayman Islands, no invitation may be made to the public in the Cayman Islands to subscribe for, or purchase, Notes by or on behalf of PGH unless at the time of such invitation PGH is listed on the Cayman Islands Stock Exchange. PGH is not presently listed on the Cayman Islands Stock Exchange and, accordingly, no invitation to the public in the Cayman Islands is to be made by PGH, or on its behalf. No such invitation is made to the public in the Cayman Islands hereby.

General

These selling restrictions may be modified by the agreement of PGHC, PGH and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms or Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No action has been or will be taken in any country or any jurisdiction by the Dealers, PGHC or PGH that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to any of the Notes, in any country or jurisdiction where action for that purpose is required. Each Permanent Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it shall comply (to the best of its knowledge and belief, having made reasonable enquiries) with all applicable laws and regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers any of the Notes or has in its possession or distributes the Prospectus or any such other material relating to any of the Notes, in all cases at its own expense. Each Permanent Dealer has also undertaken and each Further Dealer appointed under the programme will be required to undertake to ensure that no obligations are imposed on PGHC, PGH or any other Dealer in any such jurisdiction as a result of any of the foregoing actions. PGHC, PGH and the other Dealers will have no responsibility for, and each Permanent Dealer has agreed and each further Dealer appointed under the Programme will be required to agree to obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of any of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. No Dealer has been authorised to make any representation or use any information in connection with the issue, subscription and sale of any of the Notes other than as contained or incorporated by reference in this Prospectus or any amendment or supplement to it.

FORM OF FINAL TERMS FOR SENIOR NOTES

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below. Provisions which are marked with a * only apply where PGH Capital Public Limited Company is the Issuer and provisions marked with a ** only apply where Phoenix Group Holdings is the Issuer.

Final Terms dated [●]

[PGH Capital Public Limited Company]* [Phoenix Group Holdings]**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000 Euro Medium Term Note Programme

[guaranteed by Phoenix Group Holdings]*

PART A – CONTRACTUAL TERMS FOR SENIOR NOTES

[MiFID II product governance / Professional investors and ECPs only target market] – Solely for the purposes of [the/each] manufacturer[‘s/s’] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS] – The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU, as amended, “**MiFID II**” / MiFID II]“”; [or] (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or [(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”)]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Senior Notes (the “**Conditions**”) set forth in the Prospectus dated 18 April 2018 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer [and the Guarantor]* and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus is available for viewing at Citibank N.A., London Branch, Citigroup Centre, Canada Square,

Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from [PGH Capital Public Limited Company, 10 Earlsfort Terrace, Dublin 2, Ireland.]* [Phoenix Group Holdings, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom]**

[OR]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Senior Notes (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer [and the Guarantor]* and the offer of the Notes is only available on the basis of the combination of the Conditions, these Final Terms and the Prospectus dated [current date] [as so supplemented]. The Prospectus is available for viewing at Citibank N.A., London Branch, Citigroup Centre Canada Square, Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from [PGH Capital Public Limited Company, 10 Earlsfort Terrace, Dublin 2, Ireland.]* [Phoenix Group Holdings, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom]**

1	Issuer:	[PGH Capital Public Limited Company]* [Phoenix Group Holdings]**
2	Guarantor:	[Phoenix Group Holdings]* [Not applicable]**
3	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
4	Specified Currency or Currencies:	[●]
5	Aggregate Nominal Amount of Notes admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
6	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
7	(i) Specified Denominations:	[[●] and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]]
	(ii) Calculation Amount (Definitive Notes only):	[●]
8	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●]
9	Maturity Date:	[[●]/The Interest Payment Date falling in or nearest to [●]]
10	Interest Basis:	[[●] per cent. Fixed Rate/ Fixed to Floating Rate Notes/ Fixed Rate Reset Notes/ [●] month [LIBOR/EURIBOR] +/-[●] per cent. Floating Rate/Zero Coupon]

- 11 **Change of Interest Basis:** [●]/[Fixed Rate Reset Notes]/[Fixed to Floating Rate Notes]
- 12 **Redemption Basis:** [Redemption at par]
- 13 **Put/Call Options:** [Investor Put]
[Issuer Call]
- 14 (i) Status of the Notes: Senior Notes
- (ii) [Date [Board] approval for issuance of Notes obtained: [[●]/Not Applicable, save as discussed in [Paragraph 2] of the “*General Information*” section in the Prospectus]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 15 **Fixed Rate Note and Fixed to Floating Rate Note Provisions:** [Applicable/Not Applicable/Applicable for the period from and including [●] to, but excluding, [●] (the “**Fixed Rate End Date**”)]
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with paragraph 15(vii)/not subject to adjustment]/[commencing on [●] to and including [●]]
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[●]]
- (v) Day Count Fraction: [[“Actual/Actual”/ “Actual/Actual - ISDA”/ “Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual/360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]
- (vi) Determination Dates: [[●] in each year/Not Applicable]
- (vii) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- 16 **Fixed Rate Reset Note Provisions:** [Applicable/Not Applicable]
- (i) Initial Rate of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Reset Margin: [+/-][●] per cent. per annum
- (iii) Interest Payment Date(s): [●] in each year
- (iv) Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date: [●] per Calculation Amount
- (v) Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable]

	(vi)	First Reset Note Reset Date:	[●]
	(vii)	Anniversary Date(s):	[●] [and each corresponding day and month falling [●] years thereafter]
	(viii)	Reset Determination Dates:	[●]
	(ix)	Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] / [Benchmark Gilt Rate]
	(x)	Benchmark Gilt[s]:	[●]/[●]/[Not Applicable]
	(xi)	Benchmark Frequency:	[●]
	(xii)	Swap Rate Period:	[[●]/Not Applicable]
	(xiii)	Screen Page:	[“ICESWAP1”] / [“ICESWAP 2”] / [“ICESWAP3”] / [“ICESWAP4”] / [“ICESWAP 5”] / [“ICESWAP6”] / [●] / [Not Applicable]
	(xiv)	Fixed Leg:	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not Applicable]
	(xv)	Floating Leg:	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an [Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
	(xvi)	Day Count Fraction:	[“Actual/Actual”/”Actual/Actual- ISDA”/ “Actual/Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual 360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]
	(xvii)	Determination Dates:	[[●] in each year/Not Applicable]
17		Floating Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including the Fixed Rate End Date to, but excluding, [●]]
	(i)	Interest Period(s):	[●]
	(ii)	Interest Payment Dates:	[●]
	(iii)	Interest Period Date:	[Not Applicable]/[●] in each year [,subject to adjustment in accordance with the Business Day Convention set out below]/[, not subject to adjustment]
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
	(v)	Additional Business Centre(s):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the	[●]

	Issuing and Paying Agent):	
(viii)	Screen Rate Determination:	[Offered quotation/Arithmetic mean of offered quotations]
	Reference Rate:	[●] month [LIBOR/EURIBOR]
	Interest Determination Date(s):	[●]
	Relevant Screen Page:	[●]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(x)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	["Actual/Actual" / "Actual/Actual - ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual 360"/ "30/360"/ "360/360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
18	Zero Coupon Note Provisions:	[Applicable/Not Applicable]
(i)	Amortisation Yield:	[[●] per cent. per annum] / [Not Applicable]
(ii)	Day Count Fraction:	["Actual/Actual"/"Actual/Actual - ISDA"/"Actual/Actual Method"/"Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/"30/360"/"360/360"/"Bond Basis"/"30E/360"/"Eurobond Basis"/"30E/360 (ISDA)"/"Actual/Actual - ICMA"]

PROVISIONS RELATING TO REDEMPTION

19	Call Option:	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
(iii)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
(iv)	Notice period:	[●]
20	Put Option:	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[●]

- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): per Calculation Amount
- (iii) Notice period:
- 21 **Early Redemption Amount**
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:
- 22 Final Redemption Amount of each Note: per Calculation Amount/[Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 23 **Relevant Benchmark[s]** [[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation]/[Not Applicable]
- 24 **Form of Notes:**
- [Bearer Notes:**
[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
[Temporary Global Note exchangeable for Definitive Notes on days' notice]
[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Registered Notes:**
[Regulation S Global Note (U.S.\$/€ nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]].
- 25 **New Global Note (Bearer Notes):** [Yes] [No]
- 26 **Global Certificates (Registered Notes):** [Yes] [No]
- 27 **New Safekeeping Structure** [Yes] [No]

(Registered Notes):

- 28 **Additional Financial Centre(s) or other special provisions relating to Payment Dates:** [Not Applicable/[●]]
- 29 **Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):** [Yes] / [No] [As the Notes have more than 27 Coupons, Talons will be attached.]

DISTRIBUTION

- 30 U.S. selling restrictions: [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]
- 31 Additional selling restrictions: [Not Applicable]
- 32 Prohibition of Sales to EEA Retail Investors [Applicable/Not Applicable]

Signed on behalf of the Issuer:

By:

Duly authorised

[Signed on behalf of the Guarantor:

By:

Duly authorised]*

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [London]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [the London Stock Exchange] with effect from [●].]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: The Notes to be issued have been rated:
- [Fitch Ratings: [●]]
- [S&P: [●]]
- [Moody's: [●]]
- [[●] [is/is not] established in the European Economic Area and [is/is not] registered under Regulation (EU) No 1060/2009, as amended]

3 [ESTIMATED TOTAL EXPENSES]

- Estimated total expenses: [●]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[[●]”Save as discussed in [“*Subscription and Sale*”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

5 [Fixed Rate Notes only – YIELD

- Indication of yield: [●]
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 OPERATIONAL INFORMATION

- ISIN Code: [●]
- Common Code: [●]
- Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA and the relevant identification number(s): [Not Applicable/[●]]
- Names and addresses of additional Paying Agent(s) (if any): [●]

FORM OF FINAL TERMS FOR TIER 3 NOTES

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [●]

Phoenix Group Holdings

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000 Euro Medium Term Note Programme

PART A - CONTRACTUAL TERMS FOR TIER 3 NOTES

[MiFID II product governance / Professional investors and ECPs only target market: Solely for the purposes of [the/each] manufacturer[‘s/s’] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market]*. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU, as amended, “**MiFID II**” / MiFID II]; [or] (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; [or] (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended, the “**Prospectus Directive**”. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 3 Notes (the “**Conditions**”) set forth in the Prospectus dated 18 April 2018 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus is available for viewing at Citibank N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from Phoenix Group Holdings, 100 St Paul’s Churchyard, London EC4M 8BU, United Kingdom.]

[OR]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 3 Notes (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Conditions, these Final Terms and the Prospectus dated [current date] [as so supplemented]. The Prospectus is available for viewing at Citibank N.A., London Branch, Citigroup Centre Canada Square, Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from Phoenix Group Holdings, 100 St Paul’s Churchyard, London EC4M 8BU, United Kingdom.]

1	Issuer:	Phoenix Group Holdings
2	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Notes admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i) Specified Denominations:	[[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]]
	(ii) Calculation Amount (Definitive Notes only):	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date	[●]
8	Maturity Date:	[[●]/The Interest Payment Date falling in or nearest to [●]]
9	Interest Basis:	[[●] per cent. Fixed Rate]/ [●] month [LIBOR/EURIBOR] +/-[●] per cent. Floating Rate]/ [Fixed Rate Reset Notes]/ [Fixed to Floating Rate Notes]
10	Redemption Basis:	[Redemption at par]/[Not Applicable]
11	Change of Interest Basis:	[●]/[Fixed Rate Reset Notes]/[Fixed to Floating Rate Notes]

12	Call Options:	[Issuer Call]
13	(i) Status of the Notes:	Tier 3 Notes
	(ii) [Date [Board] approval for issuance of Notes obtained:	[[●]/Not Applicable, save as discussed in [Paragraph 2] of the “ <i>General Information</i> ” section in the Prospectus]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including [●] to, but excluding, [●] (the “ Fixed Rate End Date ”)]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with paragraph 15(vii)/not subject to adjustment]/[commencing on [●] to and including [●]]
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv) Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[●]
	(v) Day Count Fraction:	[[“Actual/Actual”/ “Actual/Actual - ISDA”/ “Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual/360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]
	(vi) Determination Dates:	[[●] in each year/Not Applicable]
	(vii) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
15	Fixed Rate Reset Note Provisions:	[Applicable/Not Applicable]
	(i) Initial Rate of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Reset Margin:	[+/-][●] per cent. per annum
	(iii) Interest Payment Date(s):	[●] in each year
	(iv) Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[●] per Calculation Amount
	(v) Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable]
	(vi) First Reset Note Reset Date:	[●]
	(vii) Anniversary Date(s):	[●] [and each corresponding day and month falling [●] years thereafter]
	(viii) Reset Determination Dates:	[●]

(ix)	Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] / [Benchmark Gilt Rate]
(x)	Benchmark Gilt[s]:	[●]/[●]/[Not Applicable]
(xi)	Benchmark Frequency:	[●]
(xii)	Swap Rate Period:	[[●]/Not Applicable]
(xiii)	Screen Page:	[“ICESWAP1”] / [“ICESWAP 2”] / [“ICESWAP3”] / [“ICESWAP4”] / [“ICESWAP 5”] / [“ICESWAP6”] / [●] / [Not Applicable]
(xiv)	Fixed Leg:	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not Applicable]
(xv)	Floating Leg:	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an [Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
(xvi)	Day Count Fraction:	[“Actual/Actual”]/“Actual/Actual- ISDA”/ “Actual/ “Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual 360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]
(xvii)	Determination Dates:	[[●] in each year/Not Applicable]
16	Floating Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including the Fixed Rate End Date to, but excluding, [●]]
(i)	Interest Period(s):	[●]
(ii)	Interest Payment Dates:	[●]
(iii)	Interest Period Date:	[Not Applicable]/[●] in each year [,subject to adjustment in accordance with the Business Day Convention set out below]/[, not subject to adjustment]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
(v)	Additional Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
(viii)	Screen Rate Determination:	[Offered quotation/Arithmetic mean of offered quotations]
	Reference Rate:	[●] month [LIBOR/EURIBOR]

	Interest Determination Date(s):	[●]
	Relevant Screen Page:	[●]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(x)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[“Actual/Actual” / “Actual/Actual - ISDA”/ “Actual/Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual/360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]

PROVISIONS RELATING TO REDEMPTION

17	Capital Replacement End Date:	[●]
18	Call Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii) Notice period:	[●]
19	Ratings Methodology Call:	[Applicable/Not Applicable]
20	Final Redemption Amount of each Note:	[[●] per Calculation Amount]/[Not Applicable]
21	Special Redemption Price:	
	(i) in respect of a Capital Disqualification Event redemption:	[●] per Calculation Amount
	(ii) in respect of a redemption for taxation reasons:	[●] per Calculation Amount
	(iii) in respect of a Ratings Methodology Event redemption:	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 22 **Relevant Benchmark[s]** [[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation]/[Not Applicable]
- 23 **Form of Notes:**
- [Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]
- [Registered Notes:**
- [Regulation S Global Note (U.S./€/[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
- 24 **Global Certificates (Registered Notes):** [Yes] [No]
- 25 **Additional Financial Centre(s) or other special provisions relating to Payment Dates:** [Not Applicable/[●]]
- 26 **Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):** [Yes] [No] [As the Notes have more than 27 Coupons, Talons will be attached.]
- DISTRIBUTION**
- 27 **U.S. selling restrictions:** [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]
- 28 **Additional selling restrictions:** [Not Applicable]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [London]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [the London Stock Exchange] with effect from [•].]
- (iii) Estimate of total expenses related to admission to trading: [•]

2 RATINGS

Ratings: The Notes to be issued have been rated:
[Fitch Ratings: [•]]
[S&P: [•]]
[Moody's: [•]]
[[•] [is/is not] established in the European Economic Area and [is/is not] registered under Regulation (EU) No 1060/2009, as amended]

3 [ESTIMATED TOTAL EXPENSES]

Estimated total expenses: [•]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[[•]/ “Save as discussed in [“*Subscription and Sale*”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

5 [Fixed Rate Notes only - YIELD

Indication of yield: [•]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 OPERATIONAL INFORMATION

ISIN Code: [•]
Common Code: [•]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA and the relevant identification number(s): [Not Applicable/[•]]
Names and addresses of additional Paying Agent(s) (if any): [•]

FORM OF FINAL TERMS FOR TIER 2 NOTES

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [●]

Phoenix Group Holdings

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000 Euro Medium Term Note Programme

PART A - CONTRACTUAL TERMS FOR TIER 2 NOTES

[MiFID II product governance / Professional investors and ECPs only target market: Solely for the purposes of [the/each] manufacturer[‘s/s’] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU, as amended, “**MiFID II**” / MiFID II]; [or] (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; [or] (iii) not a qualified investor as defined in Directive 2003/71/EC. as amended, the “**Prospectus Directive**”. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 2 Notes (the “**Conditions**”) set forth in the Prospectus dated 18 April 2018 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus is available for viewing at Citibank N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from Phoenix Group Holdings, 100 St Paul’s Churchyard, London EC4M 8BU, United Kingdom.]

[OR]

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 2 Notes (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Conditions, these Final Terms and the Prospectus dated [current date] [as so supplemented]. The Prospectus is available for viewing at Citibank N.A., London Branch, Citigroup Centre Canada Square, Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from Phoenix Group Holdings, 100 St Paul’s Churchyard, London EC4M 8BU, United Kingdom.]

1	Issuer:	Phoenix Group Holdings
2	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Notes admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i) Specified Denominations:	[[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above[●]]
	(ii) Calculation Amount (Definitive Notes only):	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date	[●]
8	Maturity Date:	[[●]/The Interest Payment Date falling in or nearest to [●]]/[Not Applicable]
9	Interest Basis:	[[●]per cent. Fixed Rate]/ [●] month [LIBOR/EURIBOR] +/-[●] per cent. Floating Rate]/ [Fixed Rate Reset Notes]/ [Fixed to Floating Rate Notes]
10	Redemption Basis:	[Redemption at par]/[Not Applicable]
11	Change of Interest Basis:	[●]/[Fixed Rate Reset Notes]/[Fixed to Floating Rate Notes]
12	Call Options:	[Issuer Call]

- | | | | |
|----|------|--|--|
| 13 | (i) | Status of the Notes: | Tier 2 Notes |
| | (ii) | [Date [Board] approval for issuance of Notes obtained: | [[●]/Not Applicable, save as discussed in [Paragraph 2] of the “ <i>General Information</i> ” section in the Prospectus] |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- | | | |
|----|--|---|
| 14 | Fixed Rate Note and Fixed to Floating Rate Note Provisions: | [Applicable/Not Applicable/Applicable for the period from and including [●] to, but excluding, [●] (the “ Fixed Rate End Date ”)] |
| | (i) | Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear] |
| | (ii) | Interest Payment Date(s): [●] in each year [adjusted in accordance with paragraph 15(vii)/not subject to adjustment]/[commencing on [●] to and including [●]] |
| | (iii) | Fixed Coupon Amount[(s)]: [●] per Calculation Amount |
| | (iv) | Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[●] |
| | (v) | Day Count Fraction: [[“Actual/Actual”/ “Actual/Actual - ISDA”/ “Actual/Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual/360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”] |
| | (vi) | Determination Dates: [[●] in each year/Not Applicable] |
| | (vii) | Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable] |
| 15 | Fixed Rate Reset Note Provisions: | [Applicable/Not Applicable] |
| | (i) | Initial Rate of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear] |
| | (ii) | Reset Margin: [+/-][●] per cent. per annum |
| | (iii) | Interest Payment Date(s): [●] in each year |
| | (iv) | Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date: [●] per Calculation Amount |
| | (v) | Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable] |
| | (vi) | First Reset Note Reset Date: [●] |
| | (vii) | Anniversary Date(s): [●] [and each corresponding day and month falling [●] years thereafter] |
| | (viii) | Reset Determination Dates: [●] |
| | (ix) | Reset Rate: [[semi-annual][annualised]Mid-Swap Rate] / |

		[Benchmark Gilt Rate]
(x)	Benchmark Gilt[s]:	[●]/[●]/[Not Applicable]
(xi)	Benchmark Frequency:	[●]
(xii)	Swap Rate Period:	[[●]/Not Applicable]
(xiii)	Screen Page:	["ICESWAP1"] / ["ICESWAP 2"] / ["ICESWAP3"] / ["ICESWAP4"] / ["ICESWAP 5"] / ["ICESWAP6"] / [●] / [Not Applicable]
(xiv)	Fixed Leg:	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not Applicable]
(xv)	Floating Leg:	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an [Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
(xvi)	Day Count Fraction:	["Actual/Actual"/"Actual/Actual- ISDA"/ "Actual/ "Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual 360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
(xvii)	Determination Dates:	[[●] in each year/Not Applicable]
16	Floating Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including the Fixed Rate End Date to, but excluding, [●]]
(i)	Interest Period(s):	[●]
(ii)	Interest Payment Dates:	[●]
(iii)	Interest Period Date:	[Not Applicable]/[●] in each year [,subject to adjustment in accordance with the Business Day Convention set out below]/[, not subject to adjustment]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
(v)	Additional Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
(viii)	Screen Rate Determination:	[Offered quotation/Arithmetic mean of offered quotations]
	Reference Rate:	[●] month [LIBOR/EURIBOR]
	Interest Determination Date(s):	[●]

	Relevant Screen Page:	[●]
(ix)	ISDA Determination	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(x)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[“Actual/Actual” / “Actual/Actual - ISDA” / “Actual/Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual/360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]

17 **Optional Interest Payment Date** [Applicable/Not Applicable]

PROVISIONS RELATING TO REDEMPTION

18 **Capital Replacement End Date:** [●]

19 **Call Option:** [Applicable/Not Applicable]

(i) Optional Redemption Date(s): [●]

(ii) Optional Redemption Amount(s) of each Note: [●] per Calculation Amount

(iii) Notice period: [●]

20 **Ratings Methodology Call:** [Applicable/Not Applicable.]

21 **Final Redemption Amount of each Note:** [[●] per Calculation Amount]/[Not Applicable]

22 **Special Redemption Price:**

(i) in respect of a Capital Disqualification Event redemption: [●] per Calculation Amount

(ii) in respect of a redemption for taxation reasons [●] per Calculation Amount

(iii) in respect of a Ratings Methodology Event redemption: [●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 23 **Relevant Benchmark[s]** [[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation]/[Not Applicable]
- 24 **Form of Notes:**
- [Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [●]days' notice]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]
- [Registered Notes:**
- [Regulation S Global Note (U.S./€[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
- 25 **Global Certificates (Registered Notes):** [Yes] [No]
- 26 **Additional Financial Centre(s) or other special provisions relating to Payment Dates:** [Not Applicable/[●]]
- 27 **Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):** [Yes] / [No] [As the Notes have more than 27 Coupons, Talons will be attached.]

DISTRIBUTION

- 28 **U.S. selling restrictions:** [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]
- 29 **Additional selling restrictions:** [Not Applicable]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [London]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [the London Stock Exchange] with effect from [●].]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

Ratings: The Notes to be issued have been rated:
[Fitch Ratings: [●]]
[S&P: [●]]
[Moody's: [●]]
[[●] [is/is not] established in the European Economic Area and [is/is not] registered under Regulation (EU) No 1060/2009, as amended]

3 [ESTIMATED TOTAL EXPENSES]

Estimated total expenses: [●]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[[●]/ "Save as discussed in ["*Subscription and Sale*"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

5 [Fixed Rate Notes only - YIELD

Indication of yield: [●]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 OPERATIONAL INFORMATION

ISIN Code: [●]
Common Code: [●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA and the relevant identification number(s): [Not Applicable/[●]]
Names and addresses of additional Paying Agent(s) (if any): [●]

FORM OF PRICING SUPPLEMENT FOR SENIOR NOTES

No prospectus is required in accordance with Directive 2003/71/EC, as amended, for the issue of the PD Exempt Notes described herein. The UK Listing Authority has neither approved or reviewed information contained in this Pricing Supplement.

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below. Provisions which are marked with a * only apply where PGH Capital Public Limited Company is the Issuer and provisions marked with a ** only apply where Phoenix Group Holdings is the Issuer.

Pricing Supplement dated [●]

[PGH Capital Public Limited Company]* [Phoenix Group Holdings]**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000 Euro Medium Term Note Programme

[guaranteed by Phoenix Group Holdings]*

PART A - CONTRACTUAL TERMS FOR SENIOR NOTES

[MiFID II product governance / Professional investors and ECPs only target market] – Solely for the purposes of [the/each] manufacturer[‘s/s’] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market]*. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS] – The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); [or] (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or [(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Senior Notes (the “**Conditions**”) set forth in the Prospectus dated 18 April 2018 [and the supplemental Prospectus dated [●]] (the “**Prospectus**”). Any reference in the Conditions to “relevant Final Terms” shall be deemed to include “relevant Pricing Supplement”, where applicable.

This document constitutes the Pricing Supplement of the PD Exempt Notes described herein and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer [and the Guarantor]* and the offer of the PD Exempt Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at Citibank N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from [PGH Capital Public Limited Company, 10 Earlsfort Terrace, Dublin 2, Ireland.]* [Phoenix Group Holdings, 100 St Paul’s Churchyard, London EC4M 8BU, United Kingdom]**.

1	Issuer:	[PGH Capital Public Limited Company]* [Phoenix Group Holdings]**
2	Guarantor:	[Phoenix Group Holdings]* [Not Applicable]**
3	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
4	Specified Currency or Currencies:	[●]
5	Aggregate Nominal Amount of Notes admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
6	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
7	(i) Specified Denominations:	[[●] and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]]
	(ii) Calculation Amount (Definitive Notes only):	[●]
8	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●]
9	Maturity Date:	[[●]/The Interest Payment Date falling in or nearest to [●]]
10	Interest Basis:	[[●] per cent. Fixed Rate/ Fixed to Floating Rate Notes/ Fixed Rate Reset Notes/ [●] month [LIBOR/EURIBOR] +/-[●] per cent. Floating Rate/Zero Coupon]
11	Change of Interest Basis:	[●]/[Fixed Rate Reset Notes]/[Fixed to Floating Rate Notes]
12	Redemption Basis:	[Redemption at par]
13	Put/Call Options:	[Investor Put] [Issuer Call]
14	(i) Status of the Notes:	Senior Notes
	(ii) [Date [Board] approval for issuance of Notes obtained:	[[●]/Not Applicable, save as discussed in [Paragraph 2] of the “General Information” section in the Prospectus]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	Fixed Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including [●] to, but excluding, [●] (the “ Fixed Rate End Date ”)]
(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with paragraph 15(vii)/not subject to adjustment]/[commencing on [●] to and including [●]]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[●]
(v)	Day Count Fraction:	[[“Actual/Actual”/ “Actual/Actual - ISDA”/ “Actual/365 (Fixed)”/ “Actual/365 (Sterling)”/ “Actual/360”/ “30/360”/ “360/ 360”/ “Bond Basis”/ “30E/360”/ “Eurobond Basis”/ “30E/360 (ISDA)”/ “Actual/Actual - ICMA”]
(vi)	Determination Dates:	[[●] in each year/Not Applicable]
(vii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
16	Fixed Rate Reset Note Provisions:	[Applicable/Not Applicable]
(i)	Initial Rate of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii)	Reset Margin:	[+/-][●] per cent. per annum
(iii)	Interest Payment Date(s):	[●] in each year
(iv)	Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[●] per Calculation Amount
(v)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable]
(vi)	First Reset Note Reset Date:	[●]
(vii)	Anniversary Date(s):	[●] [and each corresponding day and month falling [●] years thereafter]
(viii)	Reset Determination Dates:	[●]
(ix)	Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] / [Benchmark Gilt Rate]
(x)	Benchmark Gilt[s]:	[●]/[●]/[Not Applicable]
(xi)	Benchmark Frequency:	[●]

	(xii)	Swap Rate Period:	[[●]/Not Applicable]
	(xiii)	Screen Page:	[["ICESWAP1"] / ["ICESWAP 2"] / ["ICESWAP3"] / ["ICESWAP4"] / ["ICESWAP 5"] / ["ICESWAP6"] / [●] / [Not Applicable]
	(xiv)	Fixed Leg:	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not Applicable]
	(xv)	Floating Leg:	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an [Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
	(xvi)	Day Count Fraction:	[["Actual/Actual"/"Actual/Actual- ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual 360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]]
	(xvii)	Determination Dates:	[[●] in each year/Not Applicable]
17		Floating Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including the Fixed Rate End Date to, but excluding, [●]]
	(i)	Interest Period(s):	[●]
	(ii)	Interest Payment Dates:	[●]
	(iii)	Interest Period Date:	[Not Applicable]/[●] in each year [,subject to adjustment in accordance with the Business Day Convention set out below]/[, not subject to adjustment]
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
	(v)	Additional Business Centre(s):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
	(viii)	Screen Rate Determination:	[Offered quotation/Arithmetic mean of offered quotations]
		Reference Rate:	[●] month [LIBOR/EURIBOR]
		Interest Determination Date(s):	[●]
		Relevant Screen Page:	[●]
	(ix)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]

	–	Reset Date:	[●]
(x)		Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(xi)		Margin(s):	[+/-][●] per cent. per annum
(xii)		Minimum Rate of Interest:	[●] per cent. per annum
(xiii)		Maximum Rate of Interest:	[●] per cent. per annum
(xiv)		Day Count Fraction:	["Actual/Actual" / "Actual/Actual - ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual 360"/ "30/360"/ "360/360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
18		Zero Coupon Note Provisions:	[Applicable/Not Applicable]
	(i)	Amortisation Yield:	[[●] per cent. per annum] / [Not Applicable]
	(ii)	Day Count Fraction:	["Actual/Actual"/"Actual/Actual - ISDA"/"Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/"30/360"/"360/360"/"Bond Basis"/"30E/360"/"Eurobond Basis"/"30E/360 (ISDA)"/"Actual/Actual - ICMA"]

PROVISIONS RELATING TO REDEMPTION

19		Call Option:	[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period:	[●]
20		Put Option:	[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	Notice period:	[●]
21		Early Redemption Amount	
		Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early	[●]

redemption:

- 22 Final Redemption Amount of each Note: per Calculation Amount]/[Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 23 **Relevant Benchmark[s]** [specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation]/[Not Applicable]
- 24 **Form of Notes:**
- [Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on days' notice]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Registered Notes:**
- [Regulation S Global Note (U.S.\$/€ nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)].
- 25 **New Global Note (Bearer Notes):** [Yes] [No]
- 26 **Global Certificates (Registered Notes):** [Yes] [No]
- 27 **New Safekeeping Structure (Registered Notes):** [Yes] [No]
- 28 **Additional Financial Centre(s) or other special provisions relating to Payment Dates:** [Not Applicable]/]
- 29 **Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):** [Yes] / [No] [As the Notes have more than 27 Coupons, Talons will be attached.]

DISTRIBUTION

- 30 U.S. selling restrictions: [Reg. S Compliance Category; TEFRA C/TEFRA

D/TEFRA Not Applicable]

31 Additional selling restrictions:

[Not Applicable]

32 Prohibition of Sales to EEA Retail
Investors

[Applicable/Not Applicable]

(If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

Signed on behalf of the Issuer:

By:

Duly authorised

[Signed on behalf of the Guarantor:

By:

Duly authorised]*

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [[●]/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]
[Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: The Notes to be issued have been rated:
[Fitch Ratings: [●]]
[S&P: [●]]
[Moody's: [●]]
[[●] [is/is not] established in the European Economic Area and [is/is not] registered under Regulation (EU) No 1060/2009, as amended]

3 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (iv) Reasons for the offer and use of proceeds: [●]
- (v) Estimated net proceeds: [●]
- (vi) Estimated total expenses: [●]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[[●]/ "Save as discussed in ["*Subscription and Sale*"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

5 [Fixed Rate Notes only - YIELD

- Indication of yield: [●]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 OPERATIONAL INFORMATION

- ISIN Code: [●]
- Common Code: [●]
- Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA and the relevant identification number(s): [Not Applicable/[●]]
- Names and addresses of additional Paying Agent(s) (if any): [●]

FORM OF PRICING SUPPLEMENT FOR TIER 3 NOTES

No prospectus is required in accordance with Directive 2003/71/EC, as amended, for the issue of the PD Exempt Notes described herein. The UK Listing Authority has neither approved or reviewed information contained in this Pricing Supplement.

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [●]

Phoenix Group Holdings

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000 Euro Medium Term Note Programme

PART A - CONTRACTUAL TERMS FOR TIER 3 NOTES

[MiFID II product governance / Professional investors and ECPs only target market] – Solely for the purposes of [the/each] manufacturer[‘s/s’] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market]*. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); [or] (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or [(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 3 Notes (the “**Conditions**”) set forth in the Prospectus dated 18 April 2018 [and the supplemental Prospectus dated [●]] (the “**Prospectus**”). Any reference in the Conditions to “relevant Final Terms” shall be deemed to include “relevant Pricing Supplement”, where applicable.

This document constitutes the Pricing Supplement of the PD Exempt Notes described herein and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the offer of the PD Exempt Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at Citibank N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14

5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from Phoenix Group Holdings, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom.

1	Issuer:	Phoenix Group Holdings
2	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Notes admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i) Specified Denominations:	[[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above[●]]
	(ii) Calculation Amount (Definitive Notes only):	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date	[●]
8	Maturity Date:	[[●]/The Interest Payment Date falling in or nearest to [●]]
9	Interest Basis:	[[●] per cent. Fixed Rate]/ [●] month [LIBOR/EURIBOR] +/-[●] per cent. Floating Rate]/ [Fixed Rate Reset Notes]/ [Fixed to Floating Rate Notes]
10	Redemption Basis:	[Redemption at par]/[Not Applicable]
11	Change of Interest Basis:	[●]/[Fixed Rate Reset Notes]/[Fixed to Floating Rate Notes]
12	Call Options:	[Issuer Call]
13	(i) Status of the Notes:	Tier 3 Notes
	(ii) [Date [Board] approval for issuance of Notes obtained:	[[●]/Not Applicable, save as discussed in [Paragraph 2] of the “ <i>General Information</i> ” section in the Prospectus]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including [●] to, but excluding, [●] (the “ Fixed Rate End Date ”)]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]

(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with paragraph 15(vii)/not subject to adjustment]/[commencing on [●] to and including [●]]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[●]
(v)	Day Count Fraction:	[["Actual/Actual"/ "Actual/Actual - ISDA"/ "Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
(vi)	Determination Dates:	[[●] in each year/Not Applicable]
(vii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
15	Fixed Rate Reset Note Provisions:	[Applicable/Not Applicable]
(i)	Initial Rate of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii)	Reset Margin:	[+/-][●] per cent. per annum
(iii)	Interest Payment Date(s):	[●] in each year
(iv)	Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[●] per Calculation Amount
(v)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable]
(vi)	First Reset Note Reset Date:	[●]
(vii)	Anniversary Date(s):	[●] [and each corresponding day and month falling [●] years thereafter]
(viii)	Reset Determination Dates:	[●]
(ix)	Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] / [Benchmark Gilt Rate]
(x)	Benchmark Gilt[s]:	[●]/[●]/[Not Applicable]
(xi)	Benchmark Frequency:	[●]
(xii)	Swap Rate Period:	[[●]/Not Applicable]
(xiii)	Screen Page:	[["ICESWAP1"] / ["ICESWAP 2"] / ["ICESWAP3"] / ["ICESWAP4"] / ["ICESWAP 5"] / ["ICESWAP6"] / [●] / [Not Applicable]
(xiv)	Fixed Leg:	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not

		Applicable]
(xv)	Floating Leg:	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an [Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
(xvi)	Day Count Fraction:	["Actual/Actual"/"Actual/Actual- ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
(xvii)	Determination Dates:	[[●] in each year/Not Applicable]
16	Floating Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including the Fixed Rate End Date to, but excluding, [●]]
(i)	Interest Period(s):	[●]
(ii)	Interest Payment Dates:	[●]
(iii)	Interest Period Date:	[Not Applicable]/[●] in each year [,subject to adjustment in accordance with the Business Day Convention set out below]/[, not subject to adjustment]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
(v)	Additional Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
(viii)	Screen Rate Determination:	[Offered quotation/Arithmetic mean of offered quotations]
	Reference Rate:	[●] month [LIBOR/EURIBOR]
	Interest Determination Date(s):	[●]
	Relevant Screen Page:	[●]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(x)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]

(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	["Actual/Actual" / "Actual/Actual - ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]

PROVISIONS RELATING TO REDEMPTION

17	Capital Replacement End Date:	[●]
18	Call Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii) Notice period:	[●]
19	Ratings Methodology Call:	[Applicable/Not Applicable]
20	Final Redemption Amount of each Note:	[[●] per Calculation Amount]/[Not Applicable]
21	Special Redemption Price:	
	(i) in respect of a Capital Disqualification Event redemption:	[●] per Calculation Amount
	(ii) in respect of a redemption for taxation reasons:	[●] per Calculation Amount
	(iii) in respect of a Ratings Methodology Event redemption:	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22	Relevant Benchmark[s]	[[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation]/[Not Applicable]
23	Form of Notes:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●]days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

[Registered Notes:

[Regulation S Global Note (U.S.\$/€[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]

24 **Global Certificates (Registered Notes):**

[Yes] [No]

25 **Additional Financial Centre(s) or other special provisions relating to Payment Dates:**

[Not Applicable/[●]]

26 **Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):**

[Yes] [No] [As the Notes have more than 27 Coupons, Talons will be attached.]

DISTRIBUTION

27 **U.S. selling restrictions:**

[Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]

28 **Additional selling restrictions:**

[Not Applicable]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [[●]/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]
[Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: The Notes to be issued have been rated:
[Fitch Ratings: [●]]
[S&P: [●]]
[Moody's: [●]]
[[●] [is/is not] established in the European Economic Area and [is/is not] registered under Regulation (EU) No 1060/2009, as amended]

3 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

- (i) Reasons for the offer and use of proceeds: [●]
- (ii) Estimated net proceeds: [●]
- (iii) Estimated total expenses: [●]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[[●] “Save as discussed in [“*Subscription and Sale*”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

5 [Fixed Rate Notes only - YIELD]

- Indication of yield: [●]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 OPERATIONAL INFORMATION

- ISIN Code: [●]
- Common Code: [●]
- Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA and the relevant identification number(s): [Not Applicable/[●]]
- Names and addresses of additional Paying Agent(s) (if any): [●]

FORM OF PRICING SUPPLEMENT FOR TIER 2 NOTES

No prospectus is required in accordance with Directive 2003/71/EC, as amended, for the issue of the PD Exempt Notes described herein. The UK Listing Authority has neither approved or reviewed information contained in this Pricing Supplement.

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [●]

Phoenix Group Holdings

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £3,000,000,000 Euro Medium Term Note Programme

PART A - CONTRACTUAL TERMS FOR TIER 2 NOTES

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer[‘s/s’] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market]*. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); [or] (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or [(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”)]. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPS Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Tier 2 Notes (the “**Conditions**”) set forth in the Prospectus dated 18 April 2018 [and the supplemental Prospectus dated [●]] (the “**Prospectus**”). Any reference in the Conditions to “relevant Final Terms” shall be deemed to include “relevant Pricing Supplement”, where applicable.

This document constitutes the Pricing Supplement of the PD Exempt Notes described herein and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the offer of the PD Exempt Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at Citibank N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14

5LB, United Kingdom and <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and copies may be obtained from Phoenix Group Holdings, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom.

1	Issuer:	Phoenix Group Holdings
2	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Notes admitted to trading:	
	(i) Series:	[●]
	(ii) Tranche:	[●]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i) Specified Denominations:	[[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above[●]]
	(ii) Calculation Amount (Definitive Notes only):	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date	[●]
8	Maturity Date:	[[●]/The Interest Payment Date falling in or nearest to [●]]/[Not Applicable]
9	Interest Basis:	[[●]per cent. Fixed Rate]/ [●] month [LIBOR/EURIBOR] +/-[●] per cent. Floating Rate]/ [Fixed Rate Reset Notes]/ [Fixed to Floating Rate Notes]
10	Redemption Basis:	[Redemption at par]/[Not Applicable]
11	Change of Interest Basis:	[●]/[Fixed Rate Reset Notes]/[Fixed to Floating Rate Notes]
12	Call Options:	[Issuer Call]
13	(i) Status of the Notes:	Tier 2 Notes
	(ii) [Date [Board] approval for issuance of Notes obtained:	[[●]/Not Applicable, save as discussed in [Paragraph 2] of the “ <i>General Information</i> ” section in the Prospectus]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including [●] to, but excluding, [●] (the “ Fixed Rate End Date ”)]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]

(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with paragraph 15(vii)/not subject to adjustment]/[commencing on [●] to and including [●]]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/[●]
(v)	Day Count Fraction:	[["Actual/Actual"/ "Actual/Actual - ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
(vi)	Determination Dates:	[[●] in each year/Not Applicable]
(vii)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
15	Fixed Rate Reset Note Provisions:	[Applicable/Not Applicable]
(i)	Initial Rate of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
(ii)	Reset Margin:	[+/-][●] per cent. per annum
(iii)	Interest Payment Date(s):	[●] in each year
(iv)	Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[●] per Calculation Amount
(v)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] / Not Applicable]
(vi)	First Reset Note Reset Date:	[●]
(vii)	Anniversary Date(s):	[●] [and each corresponding day and month falling [●] years thereafter]
(viii)	Reset Determination Dates:	[●]
(ix)	Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] / [Benchmark Gilt Rate]
(x)	Benchmark Gilt[s]:	[●]/[●]/[Not Applicable]
(xi)	Benchmark Frequency:	[●]
(xii)	Swap Rate Period:	[[●]/Not Applicable]
(xiii)	Screen Page:	[["ICESWAP1"] / ["ICESWAP 2"] / ["ICESWAP3"] / ["ICESWAP4"] / ["ICESWAP 5"] / ["ICESWAP6"] / [●] / [Not Applicable]
(xiv)	Fixed Leg:	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not

		Applicable]
(xv)	Floating Leg:	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate calculated on an [Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
(xvi)	Day Count Fraction:	["Actual/Actual"/"Actual/Actual- ISDA"/ "Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual 360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]
(xvii)	Determination Dates:	[[●] in each year/Not Applicable]
16	Floating Rate Note and Fixed to Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable for the period from and including the Fixed Rate End Date to, but excluding, [●]]
(i)	Interest Period(s):	[●]
(ii)	Interest Payment Dates:	[●]
(iii)	Interest Period Date:	[Not Applicable]/[●] in each year [,subject to adjustment in accordance with the Business Day Convention set out below]/[, not subject to adjustment]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
(v)	Additional Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
(viii)	Screen Rate Determination:	[Offered quotation/Arithmetic mean of offered quotations]
	Reference Rate:	[●] month [LIBOR/EURIBOR]
	Interest Determination Date(s):	[●]
	Relevant Screen Page:	[●]
(ix)	ISDA Determination	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(x)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]

- (xi) Margin(s): [+/-][●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: ["Actual/Actual" / "Actual/Actual - ISDA" / "Actual/Actual/365 (Fixed)"/ "Actual/365 (Sterling)"/ "Actual/360"/ "30/360"/ "360/ 360"/ "Bond Basis"/ "30E/360"/ "Eurobond Basis"/ "30E/360 (ISDA)"/ "Actual/Actual - ICMA"]

17 **Optional Interest Payment Date** [Applicable/Not Applicable]

PROVISIONS RELATING TO REDEMPTION

18 **Capital Replacement End Date:** [●]

19 **Call Option:** [Applicable/Not Applicable]

(i) Optional Redemption Date(s): [●]

(ii) Optional Redemption Amount(s) of each Note: [●] per Calculation Amount

(iii) Notice period: [●]

20 **Ratings Methodology Call:** [Applicable/Not Applicable.]

21 **Final Redemption Amount of each Note:** [[●] per Calculation Amount]/[Not Applicable]

22 **Special Redemption Price:**

(i) in respect of a Capital Disqualification Event redemption: [●] per Calculation Amount

(ii) in respect of a redemption for taxation reasons [●] per Calculation Amount

(iii) in respect of a Ratings Methodology Event redemption: [●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23 **Relevant Benchmark[s]** [[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation]/[Not Applicable]

24 **Form of Notes:**

[Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive

Notes on [●]days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

[Registered Notes:

[Regulation S Global Note (U.S./€[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]

25 **Global Certificates (Registered Notes):**

[Yes] [No]

26 **Additional Financial Centre(s) or other special provisions relating to Payment Dates:**

[Not Applicable/[●]]

27 **Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):**

[Yes] / [No] [As the Notes have more than 27 Coupons, Talons will be attached.]

DISTRIBUTION

28 **U.S. selling restrictions:**

[Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]

29 **Additional selling restrictions:**

[Not Applicable]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [[●]/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]
[Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: The Notes to be issued have been rated:
[Fitch Ratings: [●]]
[S&P: [●]]
[Moody's: [●]]
[[●] [is/is not] established in the European Economic Area and [is/is not] registered under Regulation (EU) No 1060/2009, as amended]

3 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

- (i) Reasons for the offer and use of proceeds: [●]
- (ii) Estimated net proceeds: [●]
- (iii) Estimated total expenses: [●]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[[●] “Save as discussed in [“*Subscription and Sale*”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

5 [Fixed Rate Notes only - YIELD]

- Indication of yield: [●]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 OPERATIONAL INFORMATION

- ISIN Code: [●]
- Common Code: [●]
- Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA and the relevant identification number(s): [Not Applicable/[●]]
- Names and addresses of additional Paying Agent(s) (if any): [●]

GENERAL INFORMATION

- (1) It is expected that each Tranche of Notes which is to be admitted to listing on the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. The acceptance of the Programme on the Official List in respect of Notes issued under the Programme for a period of 12 months from the date of this Prospectus is expected to be granted on or around 20 April 2018. Transactions on the London Stock Exchange will normally be effected for delivery on the third working day after the day of the transaction. If a Series of Notes will be unlisted, or listed on another exchange, the specific terms relating to such Series of Notes will be contained in a Pricing Supplement.
- (2) Each of PGHC and PGH has obtained all necessary consents, approvals and authorisations in connection with the establishment and update of the Programme. The establishment of the Programme was authorised by a resolution of the Board of Directors of PGHC passed on 12 December 2016 and resolutions of the Board of Directors of PGH passed on 20 October 2016 and 30 November 2016. The update of the Programme was authorised by a resolution of the Board of Directors of PGHC passed on 7 March 2018 and a resolution of the Board of Directors of PGH passed on 20 February 2018.
- (3) Since 31 December 2017, there has been (i) no significant change in the financial or trading position of PGHC and (ii) no material adverse change in the prospects of PGHC.
- (4) Since 31 December 2017, there has been (i) no significant change in the financial or trading position of PGH and (ii) no material adverse change in the prospects of PGH and its subsidiaries.
- (5) Save as described in the section of this Prospectus entitled “*Information on Phoenix Group Holdings and the Group - Litigation and Arbitration Proceedings*”, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which PGHC or PGH is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of PGHC, PGH or the Group.
- (6) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: “Any U.S. person who holds this obligation will be subject to limitations under the U.S. income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
- (7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (“**ISIN**”) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (8) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. Unless otherwise stated in the relevant Final Terms, the relevant Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.
- (9) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours and upon reasonable notice on any weekday (Saturdays,

Sundays and public holidays excepted), for inspection at the specified office of each of the Paying Agents:

- (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the Issuer/ICSD Agreement;
 - (iv) the Memorandum and Articles of Association of PGHC and PGH;
 - (v) the published Annual Report and Accounts of PGHC in respect of the financial years ended 31 December 2016 and 31 December 2017 and the published Annual Report and Accounts of PGH in respect of the financial years ended 31 December 2016 and 31 December 2017;
 - (vi) each set of Final Terms for Notes that are listed on the Official List and admitted to trading on the Market;
 - (vii) the 2017 Conditions;
 - (viii) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus and any documents incorporated by reference into this Prospectus or any Supplement to this Prospectus; and
 - (ix) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at either PGHC's or PGH's request and any part of which is included or referred to in this Prospectus.
- (10) Ernst & Young LLP of 1 More London Place, London, SE1 2AF, United Kingdom, which is a member of the Institute of Chartered Accountants in England and Wales (“ICAEW”) and is registered to carry on audit work by the ICAEW, have audited and rendered an unqualified audit report on the accounts of the Group for the years ended 31 December 2016 and 31 December 2017.
- (11) Ernst & Young of Harcourt Centre, Harcourt Street, Dublin 2, Republic of Ireland, which is a member of Chartered Accountants Ireland (“CAI”) and is registered to carry on audit work by the CAI, have audited and rendered an unqualified audit report on the accounts of PGHC for the years ended 31 December 2016 and 31 December 2017.
- (12) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuers and/or their affiliates in the ordinary course of business.
- (13) Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of PGHC, PGH and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of PGHC, PGH or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with PGHC and/or PGH routinely hedge their credit exposure to PGHC and/or PGH consistent with their customary risk management policies. Typically, such Dealers and their affiliates

would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ANNEX

HISTORICAL FINANCIAL INFORMATION RELATING TO STANDARD LIFE ASSURANCE

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Combined Income statement for the years ended 31 December 2017, 31 December 2016 & 31 December 2015

	Note	2017	2016	2015
			(£m)	
Revenue				
Gross earned premium.....		2,099	2,030	2,169
Premium ceded to reinsurers.....		(45)	(46)	(91)
Net earned premium		2,054	1,984	2,078
Investment return.....	3	12,801	15,421	5,148
Fee income.....	4	633	619	600
Other income		28	30	43
Total net revenue		15,516	18,054	7,869
Expenses				
Claims and benefits paid.....		4,397	4,766	4,542
Claim recoveries from reinsurers.....		(480)	(492)	(581)
Net insurance benefits and claims.....		3,917	4,274	3,961
Change in reinsurance assets	25	567	126	563
Change in insurance and participating contract liabilities	25	(1,392)	2,064	(1,767)
Change in non-participating investment contract liabilities	25	8,873	8,776	3,376
Change in unallocated divisible surplus.....	25	61	106	(108)
Change in third party interest in consolidated funds		1,537	444	287
Expenses under arrangements with reinsurers	5	202	509	42
Administrative expenses	6	1,075	1,045	1,159
Provision for annuity sales practices.....	32	100	175	-
Finance costs		25	25	27
Total expenses		14,965	17,544	7,540
Profit before tax		551	510	329
Tax expense attributable to policyholders' returns.....	8	159	233	80
Profit before tax attributable to equity holders profits		392	277	249
Total Tax expense.....		207	271	120
Less: Tax expense attributable to policyholders' returns		(159)	(233)	(80)
Tax expense attributable to shareholders' profits.....	8	48	38	40

	Note	2017	2016	2015
			(£m)	
Profit for the year		344	239	209
Attributable to:.....				
Net Parent Investment.....		286	160	130
Non-controlling interest - subordinated notes.....		34	34	34
Non-controlling interest - other		24	45	45
Total profit attributable to holders of net investment		344	239	209

Combined statement of comprehensive income for the years ended 31 December 2017, 31 December 2016 & 31 December 2015

	Note	2017	2016	2015
			(£m)	
Profit for the year		344	239	209
Items that will not be reclassified subsequently to profit or loss:				
Tax effect relating to items that will not be reclassified subsequently to profit.....	8	(6)	2	-
Remeasurement losses on defined benefit pension plans	28	(15)	162	168
Total items that will not be reclassified to profit or loss		(21)	164	168
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		14	41	(12)
Total items that may be reclassified subsequently to profit or loss		14	41	(12)
Total other comprehensive income		(7)	205	156
Total comprehensive income for the year		337	444	365
Attributable to:				
Net Parent Investment.....		279	365	286
Non-controlling interest.....		58	79	79

Combined statement of financial position for the years ended 31 December 2017, 31 December 2016 & 31 December 2015

	Note	2017	2016	2015
			(£m)	
Assets				
Intangible assets.....	10	85	95	66
Deferred acquisition costs.....	11	606	623	615
Investment property.....	12	8,374	6,653	8,437
Property and equipment.....	13	7	7	31
Pension and other post-retirement benefit assets.....	28	1,099	1,093	897
Deferred tax assets.....	14	11	16	7
Reinsurance assets.....	25	4,822	5,388	5,504
Loans.....	16	105	314	791
Derivative financial assets.....	15	3,026	3,517	2,441
Equity securities and interests in pooled investment funds.....	15	96,067	90,619	76,370
Debt securities.....	15	59,457	64,633	64,227
Receivables and other financial assets.....	18	616	857	1,155
Other assets.....	19	280	225	229
Assets held for sale.....	20	156	236	87
Cash and cash equivalents.....	21	8,677	7,299	9,084
Total assets.....		183,388	181,575	169,941
Net Investment				
Net Parent Investment.....	22	2,321	2,223	2,107
Non-controlling interest - subordinated notes.....	23	502	502	502
Non-controlling interest - other.....	24	297	302	290
Total Net Investment.....		3,120	3,027	2,899
Liabilities				
Non-participating insurance contract liabilities.....	25	22,747	22,919	20,828
Non-participating investment contract liabilities.....	25	104,383	101,997	92,824
Participating contract liabilities.....	25	30,577	31,268	29,660
Deposits received from reinsurers.....	26	4,633	5,093	5,134
Third party interest in consolidated funds....		13,371	11,918	14,095
Subordinated liabilities.....	27	318	318	317
Pension and other post-retirement benefit provisions.....	28	51	55	33
Deferred income.....	29	157	195	233

	Note	2017	2016	2015
			(£m)	
Current tax liabilities	14	116	81	88
Deferred tax liabilities	14	235	231	176
Derivative financial liabilities.....	17	768	950	1,239
Other financial liabilities	30	2,538	3,250	2,339
Other liabilities	31	374	273	76
Total liabilities		180,268	178,548	167,042
Total equity and liabilities		183,388	181,575	169,941

Combined statement of changes in net investment for the years ended 31 December 2017, 31 December 2016 & 31 December 2015

	Note	Net Parent Investment 2017	Non- Controlling interest (NCI) – subordinated notes 2017	Non- Controlling interest (NCI) – other 2017	Total Net Investment 2017
			(£m)		
At 1 January		2,223	502	302	3,027
Profit for the year		286	34	24	344
Other comprehensive income for the year.....		(7)	—	—	(7)
Total comprehensive income for the year		279	34	24	337
Issue of share capital in SLAL		13	—	—	13
Dividends and appropriations.....	9	(180)	(34)	—	(214)
Other transactions with Standard Life		(14)	—	—	(14)
Other movements in NCI		—	—	(29)	(29)
At 31 December		2,321	502	297	3,120

	Note	Net Parent Investment 2016	NCI – subordinated notes 2016	NCI – other 2016	Total Net Investment 2016
			(£m)		
At 1 January		2,107	502	290	2,899
Profit for the year		160	34	45	239
Other comprehensive income for the year.....		205	—	—	205
Total comprehensive income for the year		365	34	45	444
Issue of share capital in SLAL		34	—	—	34
Dividends and appropriations.....	9	(170)	(34)	—	(204)
Other transactions with Standard Life		(113)	—	—	(113)
Other movements in NCI		—	—	(33)	(33)

	Note	Net Parent Investment 2016	NCI – subordinated notes 2016	NCI – other 2016	Total Net Investment 2016
			(£m)		
At 31 December		2,223	502	302	3,027

	Note	Net Parent Investment 2015	NCI – subordinated notes 2015	NCI – other 2015	Total Net Investment 2015
			(£m)		
At 1 January		1,983	502	283	2,768
Profit for the year		130	34	45	209
Other comprehensive income for the year		156	—	—	156
Total comprehensive income for the year		286	34	45	365
Issue of share capital in SLAL		33	—	—	33
Dividends and appropriations	9	(190)	(34)	—	(224)
Other transactions with Standard Life		(5)	—	—	(5)
Other movements in NCI		—	—	(38)	(38)
At 31 December		2,107	502	290	2,899

Combined statement of cash flows for the years ended 31 December 2017, 31 December 2016 & 31 December 2015

	Note	2017	2016	2015
			(£m)	
Cash flows from operating activities				
Profit before tax		551	510	329
Adjusted for:				
Reversal of impairment on property and equipment	6	(4)	—	(1)
Amortisation of intangible assets	6	15	15	8
Amortisation of deferred acquisition costs ..	6	77	85	85
Finance costs		25	25	27
Foreign exchange loss		74	80	(20)
Net decrease/(increase) in operating assets and liabilities	33	1,152	(2,097)	(842)
Adjustment for non-cash movements in investment income		(140)	(76)	(20)
Taxation paid		(178)	(251)	(157)
Change in unallocated divisible surplus	25	61	106	(108)

	Note	2017	2016	2015
			(£m)	
Gain on disposal of property and equipment		—	—	(6)
Impairment losses on intangible assets	6	31	1	4
Net cash flows from operating activities ..		1,664	(1,602)	(701)
Cash flows from investing activities				
Purchase of property and equipment.....	13	—	(1)	—
Purchase of intangibles	10	(36)	(44)	(34)
Proceeds from sale of property and equipment	13	—	22	98
Net cash flows from investing activities ...		(36)	(23)	64
Cash flows from financing activities				
Dividends paid.....	9	(180)	(170)	(190)
Interest paid		(25)	(24)	(321)
Proceeds from issue of share capital	22	13	34	33
Appropriations	9	(34)	(34)	(34)
Other cash transactions with Standard Life .		(43)	(146)	(43)
Net cash flows from financing activities...		(269)	(340)	(555)
Net increase/(decrease) in cash and cash equivalents.....		1,359	(1,965)	(1,192)
Cash and cash equivalents at the beginning of the year		7,271	9,035	10,305
Effects of exchange rate changes on cash and cash equivalents		39	201	(78)
Cash and cash equivalents at the end of the year	21	8,669	7,271	9,035
Supplemental disclosures on cash flows from operating activities				
Interest received		1,093	1,160	1,184
Dividends received		1,447	1,184	1,198
Rental income received on investment property		430	378	401

The SL Insurance Business' operating portfolio of investment assets includes unit trusts and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows.

Notes to the financial statements

1.1 Accounting Policies

(a) Basis of preparation

(i) Background to the Transaction

On 23 February 2018, Phoenix Group Holdings (“Phoenix”), entered into an agreement with Standard Life Aberdeen plc (“Standard Life” or “SL”) to acquire the majority of its UK and European Pensions and Savings business (the “SL Insurance Business”) (the “Transaction”).

The sale involves the disposal of Standard Life Assurance Limited (“SLAL”) and certain subsidiaries and Vebnet (Holdings) Limited (“Vebnet”) and its subsidiary, with the Standard Life Aberdeen Group (“SL Group”) retaining its UK retail platforms and financial advice business. The businesses transferring to Phoenix as part of the sale include the UK mature retail and spread/risk books and the Europe, UK retail and workplace businesses.

Standard Life Aberdeen will continue to be the asset manager for the insurance business acquired by Phoenix as well as the assets it already manages for Phoenix. The Transaction includes the extension and significant enhancement of the existing long term Strategic Partnership between SL and Phoenix.

(ii) Nature of the business

The Insurance Business main activities consist of the provision of life assurance products in the UK, Ireland and Germany, with the business written in Ireland and Germany through branches.

The accompanying historical financial information reflects the assets, liabilities, revenues and expenses directly attributed to the SL Insurance Business (SL Insurance Business Historical Financial Information or SL Insurance Business HFI).

The SL Insurance business includes financial position and results of SLAL and certain subsidiaries, as well as financial position and results of Vebnet and its subsidiaries (building and distribution of technology for management and administration of employee benefit schemes) which will be transferred into SLAL prior to completion of the Transaction. The list of significant legal entities included in the perimeter of the Transaction is provided in Note 40.

(iii) Basis of the carve out historical financial information

The SL Insurance Business has not comprised a separate legal entity or group of entities for the years ended 31 December 2017, 2016 and 2015. The SL Insurance Business HFI, which has been prepared specifically for the purpose of this document and is prepared on a basis that combines the results, assets and liabilities, and cash flows of the SL Insurance Business by applying the principles underlying the consolidation procedures relating to the elimination of intercompany transactions under IFRS 10 ‘Consolidated Financial Statements’ for each of the three years ended 31 December 2017, 2016 and 2015 and as at these dates. On such basis, the SL Insurance Business HFI sets out the combined balance sheet as at 31 December 2017, 2016 and 2015 and the results of operations and cash flows for the three years then ended.

IFRS 1 First-time Adoption of International Financial Reporting Standards has been used by analogy to prepare the SL Insurance Business HFI. Each of the entities included prepares their standalone financial statements under IFRS adopted by the EU. In preparing the SL Insurance

Business HFI the IFRS information has been extracted from the individual entity financial statements

The SL Insurance Business HFI has been prepared in accordance with the requirements of the Listing Rules, and in accordance with this basis of preparation. This basis of preparation describes how the SL Insurance Business HFI has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the IFRS Interpretation Committee interpretations (together “IFRS”), except as described below. The principal accounting policies that have been applied to the SL Insurance Business HFI are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The SL Insurance Business HFI has been prepared in accordance with accounting policies that are consistent with those applied by Phoenix in its 31 December 2017 financial statements.

The SL Insurance Business HFI has been prepared on a combined basis and the results do not necessarily reflect what the results of operations, financial position, or cash flows would have been had the SL Insurance Business been a separate entity or the future results of the SL Insurance Business as it will exist upon completion of the transaction.

IFRS does not provide for the preparation of combined financial information and accordingly in preparing the SL Insurance Business HFI certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 “Standards for Investment Reporting applicable to public reporting engagements on historical financial information” issued by the U.K. Auditing Practices Board have been applied.

The SL Insurance Business HFI is presented in millions of pounds (£) and is prepared on an historical cost and going concern basis.

The following summarises the accounting and other principles applied in preparing the SL Insurance Business HFI:

- The SL Insurance Business HFI was prepared using the SL Group’s historical records of its assets and liabilities, and includes all sales, costs, assets and liabilities directly attributable to the SL Insurance Business. Costs directly associated with the SL Insurance Business, for example, the costs associated with outstanding claims, are separately identifiable and have been included directly within the SL Insurance Business HFI.
- Direct and overhead costs have been recharged to the SL Insurance Business from a related entity within the SLA Group, in line with SLA Group expense methodology, and there are no further central costs that require allocation in the preparation of the SL Insurance Business HFI. Prior to completion of the deal, a transfer of assets, licences and people is planned from this related entity into the SL Insurance Business perimeter. Future expense levels will therefore be on a different basis to the past.
- The SL Insurance Business has not in the past constituted a separate legal group and therefore it is not meaningful to show share capital or an analysis of reserves for the SL Insurance Business. The net assets of the SL Insurance Business are represented by the cumulative investment of the Standard Life group in the SL Insurance Business (shown as “Invested Capital”).

- Contractual intercompany receivables / payables with Standard Life have been shown as financial assets / liabilities of the SL Insurance Business with related parties (see note 39 for more detail).
- Standard Life uses a centralised approach to cash management and financing its operations. Transactions between Standard Life and the SL Insurance Business are accounted for through invested capital. Accordingly, none of the cash, cash equivalents, debt or related interest expense at the corporate level has been assigned to the SL Insurance Business in the SL Insurance Business HFI, with the exception of that cash that is held by the legal entities being divested as part of the Transaction.
- The IAS 19 pension accounting (both income statement and balance sheet) for defined benefit plans, where SLAL was the sponsoring employer of the scheme, has been included in the track record, as it is considered to be integral to the financial performance and position of the SL Insurance Business.
- Tax charges / credits in the HFI have been determined based on the tax charges / credits recorded in the legal entities comprising the SL Insurance Business, together with an allocation of the tax charges recorded in Standard Life group associated with the business transferred. The tax charges recorded in the income statement may not necessarily be representative of the charges that may arise in the future.
- The SL Insurance Business does not maintain taxes payable to/from Standard Life, and it is deemed to settle the annual current tax balances immediately with the legal taxpaying entities. These settlements are reflected as changes in invested capital. Current tax balances owed by legal entities are shown as liabilities of the SL Insurance Business.

First time adoption of IFRS

As the SL Insurance Business has not previously prepared standalone financial statements, this Historical Financial Information is the first IFRS financial statements of the SL Insurance Business. Accordingly, an opening combined balance sheet as at 1 January 2015 has been presented in Note 41.

Assessing post balance sheet events

For the periods presented prior to 31 December 2017, the dates of authorisation of the underlying financial statements of the individual entities have been used when assessing post balance sheet events, i.e. events have only been considered up to the dates on which the relevant underlying financial statements were authorised. For the period ended 31 December 2017 the impact of post balance sheet events occurring up to the date of approval of the HFI has been considered.

(iv) Going concern

The planned separation of the SL Insurance Business has been considered and it is expected that the appropriate funding will be available for future operations after the separation occurs. It is expected that following separation from Standard Life, the SL Insurance Business will continue operating. The SL Insurance Business' forecasts and projections, taking account of possible changes in trading performance show that the SL Insurance Business will be able to operate at adequate levels of both liquidity and capital for a period of 12 months from the date of approval of this HFI.

(v) New standards, interpretations and amendments to published standards that have been adopted by the SL Insurance Business

The SL Insurance Business has adopted the following new interpretations and amendments to existing standards, which have been endorsed by the EU.

Interpretation or amendment	Effective Date⁽¹⁾	Detail
Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative	1 January 2017	The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
Amendments to IAS 12 Income Taxes : Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	These amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

Note:

(1) For annual periods beginning on or after.

The SL Insurance Business' accounting policies have been updated to reflect these. Management considers the implementation of the above interpretations and amendments to existing standards has had no significant impact on the SL Insurance Business' financial statements.

(vi) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the SL Insurance Business

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's annual accounting periods beginning after 1 January 2017. The SL Insurance Business has not early adopted the standards, amendments and interpretations described below:

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 will replace IAS 18 Revenue, and related interpretations. IFRS 15 provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. New disclosure requirements including estimate and judgement thresholds will also be introduced.

The SL Insurance Business' revenue generated from the following contracts are exempt from this standard:

- Lease contracts within scope of IAS 17 *Leases*
- Insurance contracts within scope of IFRS 4 *Insurance Contracts*
- Financial instruments within scope of IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*
- Investments in associates and joint ventures within scope of IAS 28 *Investments in Associates and Joint Ventures*

In 2015 the IASB issued amendments to the standard and delayed the mandatory adoption date until 1 January 2018. A detailed impact assessment was completed in 2017 for all major revenue streams, reviewing contracts and analysing the revenue recognised by the SL Insurance Business. No significant impacts to profit or net assets were identified.

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018 with option to defer for certain insurance entities)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows two measurement categories for financial assets in the statement of financial position: amortised cost and fair value. All equity instruments and derivative instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is classified at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) depending on the business model it is held within or whether the option to adopt FVTPL has been applied. Changes in value of all equity instruments and derivative instruments are recognised in profit or loss unless an OCI presentation election is made at initial recognition for an equity instrument or a derivative instrument is designated as a hedging instrument in a cash flow hedge. IFRS 9 also introduces a new impairment model, an expected credit loss model which will replace the current incurred loss model in IAS 39. An impairment loss may now be recognised prior to a loss event occurring. Accounting for financial liabilities remains the same as under IAS 39 except that for financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised in OCI.

Additionally IFRS 9 amends the current requirements for assessing hedge effectiveness in IAS 39 and also amends what qualifies as a hedged item and some of the restrictions on what qualifies as a hedging instrument. The accounting and presentation requirements for designated hedging relationships remain largely unchanged.

As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements

In September 2016 the IASB issued amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts*. The amendments address the consequences of the different effective dates of IFRS 9 and IFRS 17 *Insurance Contracts*. Insurers are permitted to defer implementation of IFRS 9 until periods beginning on or after 1 January 2021 if they satisfy criteria regarding the predominance of their insurance activities, or to apply an overlay approach to remove incremental volatility from the income statement. Management has determined that the SL Insurance Business is eligible to defer the implementation of IFRS 9 and has opted to do so.

The impact of the implementation of IFRS 9 will be dependent on the implementation of IFRS 17.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The accounting for leases by lessors remains largely unchanged.

The implementation of the standard is not expected to have a significant impact on the SL Insurance Business.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021)

IFRS 17 was issued in May 2017 and will replace IFRS 4 Insurance Contracts. IFRS 4 is an interim standard which permits the continued application of accounting policies, for insurance contracts and contracts with discretionary participation features, which were being used at transition to IFRS except where a change satisfies criteria set out in IFRS 4. IFRS 17 introduces new required measurement and presentation accounting policies for such contracts which reflect the view that these contracts combine features of a financial instrument and a service contract.

IFRS 17's measurement model, which applies to groups of contracts, combines a risk-adjusted present value of the future cash flows and an amount representing the unearned profit. On transition retrospective application is required unless impracticable, in which case either a modified retrospective approach or a fair value approach is required. IFRS 17 introduces a new approach to presentation in the income statement and statement of comprehensive income.

IFRS 17 will impact the reporting of results arising from insurance contracts and contracts with discretionary participating features issued by the SL Insurance Business. The SL Insurance Business has commenced a project which will cover both the implementation of IFRS 17 and IFRS 9. IFRS 17 has not yet been endorsed by the EU.

Other

There are no other new standards, interpretations and amendments to existing standards that have been published that are expected to have a significant impact on the financial statements of the SL Insurance Business.

(vii) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to exercise judgements in applying the accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Judgements and sources of estimation uncertainty are continually evaluated and based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the SL Insurance Business historical financial information are as follows:

Financial statement area	Critical estimates and judgements in applying accounting policies	Related note
Classification of insurance, reinsurance and investment contracts	Assessment of the significance of insurance risk transferred, and treatment of contracts which have insurance, non-participating investment and participating investment elements.	Note 25
Defined benefit pension plans	Assessment of whether SLAL has an unconditional right to a refund of the surplus Treatment of tax relating to the surplus	Note 28
Contingent liabilities	Assessment of whether the SL Insurance Business has a contingent liability in relation to conduct matters	Note 37
Intangible assets	Determination of amounts to be recognised as internally developed software	Note 10
Participating contracts, non-participating insurance contracts and reinsurance contracts	Determination of the valuation interest rates for annuity liabilities Determination of longevity and mortality assumptions for annuity liabilities	Note 25
Financial instruments at fair value through profit or loss	Determination of the fair value of private equity investments, debt securities categorised as level 3 in the fair value hierarchy	Note 15 and 36
Investment property and owner occupied property	Determination of the fair value of investment property and owner occupied property	Note 15 and 36
Defined benefit pension plans	Determination of UK pension plan assumptions for mortality, discount rate and inflation	Note 28
Provisions	Measurement of provision for annuity sales practices	Note 32

(b) Consolidation - Subsidiaries

The SL Insurance Business HFI consolidates the financial statements of SLAL and certain subsidiaries and combines Vebnet and its subsidiaries (as described in notes 1.1(a)(ii) and 1(a)(iii)).

Subsidiaries are all entities, including structured entities, which the SL Insurance Business is considered to control.

Under IFRS 10, control arises when the SL Insurance Business is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intra-group transactions, balances, income and expenses are eliminated in full.

(c) Associates

Associates are entities where the SL Insurance Business can significantly influence decisions made relating to the financial and operating policies of the entity but does not control the entity. For entities where voting rights exist, significant influence is presumed where the SL Insurance Business holds over 20% of the voting rights but does not have control.

Where the SL Insurance Business has an investment in an associate, a portion of which is held by, or is held indirectly through, a mutual fund, unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at fair value through profit or loss (FVTPL).

Associates, other than those accounted for at fair value through profit or loss, and joint ventures are accounted for using the equity method from the date that significant influence or shared control, respectively, commences until the date this ceases with consistent accounting policies applied throughout.

Investment in associates is classified as equity securities and pooled investment funds in the statement of financial position.

(d) Structured entities

The SL Insurance Business has investments in a range of investment vehicles including open-ended investment companies (OEIC's), unit trusts and limited partnerships. These vehicles are structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity and as such are classified as structured entities. The SL Insurance Business' ownership interest in these vehicles can vary from day to day based on the SL Insurance Business and third party participation in them. The control assessment of each of these entities considers the rights of the SL Insurance Business to direct the relevant activities of the vehicle, its exposure to variability of returns and the ability to affect those returns using its power. In addition, the removal rights of other investors that may affect the capacity of the SL Insurance Business to direct the relevant activities are also taken into account. Where the SL Insurance Business is deemed to control such vehicles, they are treated as subsidiaries of the SL Insurance Business and consolidated in line with accounting policy (b). Where the SL Insurance Business has an investment but not control over these types of entities, the investment is classified as equity securities and pooled investment funds in the statement of financial position.

(e) Foreign currency translation

The financial statements are presented in millions pounds Sterling, which is the SL Insurance Business' presentation currency.

The statement of financial position of the SL Insurance Business' subsidiaries and branches that have a different functional currency than the SL Insurance Business' presentation currency are translated into the presentation currency at the year-end exchange rate (Euro: 1.126 2016: 1.171; 2015: 1.357) and their income statements and cash flows are translated at average exchange rates (Euro: 1.145 2016: 1.229; 2015: 1.375) for the year. All resulting exchange differences are recognised in other comprehensive income. Where the unallocated divisible surplus changes as a result of such exchange differences which are attributable to participating policyholders, this change in the unallocated divisible surplus is not recognised in the income statement but is recognised in other comprehensive income (refer also to (x)(iii)).

Foreign currency transactions are translated into the functional currency of the entity at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from

the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity securities held at FVTPL, are reported as part of the fair value gain or loss in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the income statement.

(f) Business combinations

The SL Insurance Business uses the acquisition method to account for acquisitions of businesses. At the acquisition date the assets and liabilities of the business acquired and any non-controlling interests are identified and initially measured at fair value on the statement of financial position.

When the SL Insurance Business acquires or disposes of a subsidiary, the profits and losses of the subsidiary are included from the date on which control was transferred to the SL Insurance Business until the date on which it ceases, with consistent accounting policies applied across all entities throughout.

(g) Classification of insurance, reinsurance and investment contracts

The measurement basis of assets and liabilities arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts. A contract is classified as insurance only if it transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits to those payable if no insured event occurred, excluding scenarios that lack commercial substance. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. When a policyholder exercises an option within an investment contract to utilise withdrawal proceeds from the investment contract to secure future benefits which contain significant insurance risk, the related investment contract liability is derecognised and an insurance contract liability is recognised. The withdrawal proceeds which are used to secure the insurance contract are recognised as premium income in accordance with accounting policy (h)(ii). Life and pensions business contracts that are not considered to be insurance contracts are classified as investment contracts.

The SL Insurance Business has written life and pensions business contracts which contain discretionary participating features (e.g. with profits business). These contracts provide a contractual right to receive additional benefits as a supplement to guaranteed benefits. These additional benefits are based on the performance of with profits funds and their amount and timing is at the discretion of the SL Insurance Business. These contracts are referred to as participating contracts.

Generally, life and pensions business product classes are sufficiently homogeneous to permit a single classification at the level of the product class. However, in some cases, a product class may contain individual contracts that fall across multiple classifications (hybrid contracts). For certain significant hybrid contracts the product class is separated into the insurance element, a non-participating investment element and a participating investment element, so that each element is accounted for separately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present they are accounted

for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as a reinsurance contracts.

(h) Revenue recognition

(i) Deposit accounting for non-participating investment contracts

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue in the income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (g).

The fee income associated with non-participating investment contracts is dealt with under policy (h)(iv).

(ii) Premiums

Premiums received on insurance contracts and participating investment contracts are recognised as revenue when due for payment, except for unit-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

(iii) Net investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as FVTPL, including investment income received are recognised in the income statement in the period in which they occur. The gains and losses include investment income received such as interest payments, but excludes dividend income. Dividend income is recognised in the income statement when the right to receive payment is established.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted such as rent free periods are recognised as an integral part of the total rental income and are spread over the term of the lease.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the income statement.

Interest income on loans and receivables is separately recognised in the income statement using the effective interest rate method. The effective interest rate method allocates interest and other finance costs at a constant rate over the expected life of the financial instrument, or where appropriate a shorter period, by using as the interest rate that exactly discounts the future cash receipts over the expected life to the net carrying value of the instrument.

(iv) Fee Income

All fees related to unit-linked non-participating investment contracts are deemed to be associated with the provision of investment management services. Fees related to the provision of investment management services and administration services are recognised as the services are provided. Front-end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life of the contract. Ongoing fees that are charged periodically, either directly or by making a deduction from invested funds, are recognised as received, which corresponds to when the services are provided.

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable the SL Insurance Business will be required to render further services during the life of the policy, the commission is deferred as a liability and is recognised as the services are provided.

Other fee income is related to the development and distribution of technology for the management and administration of employee benefits and the provision of management services are stated net of value added tax. Fee income deriving from support contracts and fixed term licences are recognised over the relevant contract periods. Fee income deriving from the delivery of professional services is calculated with reference to the value of the work performed to date as a proportion of total contract value. Fee income deriving from the supply of other goods and services is recognised following the provision of goods and services.

(i) Expense recognition

(i) Deposit accounting for non-participating investment contracts

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (g).

(ii) Claims and benefits paid

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the income statement.

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the insurance liability. Death claims and all other claims are accounted for when notified.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Change in insurance and participating investment contract liabilities

The change in insurance and participating investment contract liabilities comprising the full movement in the corresponding liabilities during the period is recognised in the income statement.

(iv) Change in investment contract liabilities

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the income statement as changes in investment contract liabilities.

(v) Change in unallocated divisible surplus (UDS)

The change in UDS recognised in the income statement comprises the movement in the UDS during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the income statement as it is also recognised in other comprehensive income.

(vi) Expenses under arrangements with reinsurers

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the consolidated income statement as expenses under arrangements with reinsurers.

(vii) Administrative expenses

Administrative expenses are recognised on an accruals basis.

(j) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, at least at each reporting date. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets which have been impaired are reviewed for possible reversal of impairment losses at each reporting date.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, or group of units, to which the asset belongs.

(k) Intangible assets

Intangible assets consist fully of internally developed software (see note 10) and are recognised in the statement of financial position if it is probable that the relevant future economic benefits attributable to the assets will flow to the SL Insurance Business and their cost can be measured reliably and are either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are assessed for impairment at each reporting date. An assessment is made as to whether there is an indication that the intangible asset has become impaired. If such an indication of impairment exists then the asset's recoverable amount is estimated. Irrespective of whether there is any indication of impairment, for intangible assets that are not yet available for use the recoverable amount is estimated each year at the same time. If the carrying value of an intangible asset exceeds its recoverable amount then the carrying value is written down to the recoverable amount.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of between 3 and 10 years of the intangible asset. Impairment losses are calculated and recorded on an individual basis in a manner consistent with policy (j). Amortisation commences at the time from which an intangible asset is available for use.

(l) Deferred acquisition costs

(i) Insurance and participating investment contracts

Acquisition costs incurred in issuing insurance or participating investment contracts are not deferred where such costs are borne by a with profits fund that was subject to the Prudential Regulation Authority (PRA) realistic capital regime. For other participating investment contracts,

incremental costs directly attributable to the issue of the contracts are deferred. For other Insurance contracts, acquisition costs, which include both incremental acquisition costs and other indirect costs of acquiring and processing new business, are deferred.

Deferred acquisition costs are amortised in proportion to projected margins over the period the relevant contracts are expected to remain in force. After initial recognition, deferred acquisition costs are reviewed by category of business and written off to the extent that they are no longer considered to be recoverable.

(ii) Non-participating investment contracts

Incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit linked investment contracts are deferred. Where such costs are borne by a with profits fund that was subject to the PRA's realistic capital regime, deferral is limited to the level of any related deferred income.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

Trail or renewal commission on non-participating investment contracts where the SL Insurance Business does not have an unconditional legal right to avoid payment, is deferred at inception of the contract and an offsetting liability for contingent commission is established.

(m) Investment property

Property held for long-term rental yields or investment gain that is not occupied by the SL Insurance Business and property being constructed or developed for future use as investment property are classified as investment property.

Investment property is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains or losses arising from changes in the fair value are recognised in the income statement. Investment property is not depreciated.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income and are also spread over the term of the lease.

(n) Property and equipment

Owner occupied property consists of property occupied by the SL Insurance Business. Owner occupied property is recognised initially at cost and subsequently at fair value at the date of revaluation less any subsequent accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset into working condition for its intended use.

Increases in the fair value of owner occupied property are recognised in the statement of other comprehensive income and the revaluation reserve in equity. Decreases in the fair value of owner occupied property that offset previous increases in the same asset are recognised in other comprehensive income. All other decreases are charged to the income statement for the period.

Owner occupied property is depreciated on a straight-line basis over its estimated useful life, generally between thirty and fifty years. The depreciable amount of an asset is determined by the difference

between the fair value and the residual value. The residual value is the amount that would be received on disposal if the asset was already at the age and condition expected at the end of its useful life.

Equipment is stated at historical cost less depreciation. Cost includes the original purchase price of the assets and the costs attributable to bring the asset to its working condition for its intended use. Depreciation on equipment is charged to the income statement on a straight-line basis over their estimated useful lives of between two and fifteen years. The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

(o) Taxation

Current tax and deferred tax is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly in equity respectively.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset represents a tax deduction that is expected to arise in a future period. It is only recognised to the extent that there is expected to be future taxable profit or investment return to offset the tax deduction. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction. Where local tax law allows, deferred tax assets and liabilities are netted off on the statement of financial position. The tax rates used to determine deferred tax are those enacted or substantively enacted at the reporting date.

Deferred tax is recognised on temporary differences arising from investments in associates unless it is expected that the temporary difference will not reverse in the foreseeable future and the timing of the reversal is in our control.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future or the SL Insurance Business is not able to control the timing of the reversal.

The tax expense is determined using rates enacted or substantively enacted at the reporting date.

The SL Insurance Business provides additional disclosure in relation to the total tax expense. Certain products are subject to tax on policyholders' investment returns. This tax, 'policyholder tax', is accounted for as an element of income tax. To make the tax expense disclosure more meaningful, we disclose policyholder tax and tax payable on equity holders' profits separately. The policyholder tax expense is the amount payable in the year plus the movement of amounts expected to be payable in future years by policyholders on their investment return. The remainder of the tax expense is attributed to equity holders as tax payable on equity holders' profit.

(p) Reinsurance assets

Reinsurance assets arise under contracts that are classified as reinsurance contracts (refer to policy (g)).

Reinsurance contracts are measured using valuation techniques and assumptions that are consistent with the valuation techniques and assumptions used in measuring the underlying policy benefits and taking into account the terms of the reinsurance contract.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in Receivables and other financial assets and Other financial liabilities respectively.

If a reinsurance asset is considered to be impaired, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement.

(q) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the SL Insurance Business intends to sell in the short term or that it has designated as FVTPL. For loans designated at FVTPL see accounting policy (r). Financial assets classified as loans include deposits with credit institutions, loans secured by mortgages and loans secured on policies.

Loans are initially measured at fair value plus directly attributable transaction costs. Subsequently, other than those loans designated at FVTPL, they are measured at amortised cost, using the effective interest rate method (EIR), less any impairment losses. Revenue from financial assets classified as loans is recognised in the income statement on an EIR basis.

Impairment on individual loans is determined at each reporting date. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the SL Insurance Business. This would include a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. The SL Insurance Business first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred on loans carried at amortised cost, the amount of the impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan's current carrying value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Subsequent recoveries are credited to the income statement.

If there is no evidence of impairment on an individual basis, a collective impairment review is undertaken whereby the assets are grouped together, on the basis of similar credit risk characteristics, in order to calculate a collective impairment loss.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Loans which are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the renegotiated terms have been collected. Individually significant loans whose terms have been renegotiated are subject to on-going review to determine whether they remain impaired or past due.

(r) Equity securities, debt securities and derivatives including embedded derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition.

All of the SL Insurance Business' equity securities and debt securities (including include loans designated at FVTPL) are designated as at fair value through profit or loss (FVTPL) as they are part of groups of assets which are managed and whose performance is evaluated on a fair value basis so as to maximise returns either for policyholders or equity holders.

All derivative instruments are classified as held for trading (HFT), except those designated as part of a hedging relationship.

Equity securities, debt securities and derivatives are recognised at fair value on the trade date of the transaction. In the case of derivatives, where no initial premium is paid or received, the initial measurement value is nil. For instruments classified as HFT or designated as at FVTPL, directly attributable transaction costs are not included in the initial measurement value but are recognised in the income statement.

Where a valuation technique is used to establish the fair value of a financial instrument, a difference could arise between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation technique is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out. Instruments classified as HFT or as at FVTPL are measured at fair value with changes in fair value recognised in the income statement.

Options, guarantees and other derivatives embedded in a host contract are separated and recognised as a derivative unless they are either considered closely related to the host contract, meet the definition of an insurance contract or if the host contract itself is measured at fair value with changes in fair value recognised in income.

(s) Financial guarantee contracts

The SL Insurance Business recognises and measures financial guarantee contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The SL Insurance Business initially recognises and measures a financial guarantee contract at its fair value. At each subsequent reporting date, the SL Insurance Business measures the financial guarantee contract at the higher of the initial fair value recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue* and the best estimate of the expenditure required to meet the obligations under the contract at the reporting date, determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(t) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, money held at call and short notice with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. Cash and cash equivalents are categorised for measurement purposes as loans and are therefore measured at amortised cost. For the purposes of the statement of cash flows cash and cash equivalents also include bank overdrafts, which are included in borrowings on the statement of financial position.

(u) Non current assets held for sale

Assets and liabilities which have been classified as held for sale are presented separately in the statement of financial position. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated costs that are directly attributable to the disposal (excluding finance costs and current tax expense)

Investment property and owner occupied property held for sale relates to property for which contracts have been exchanged but the sale had not completed during the current financial year. Investment property held for sale continue to be measured based on the accounting policies that applied before they were classified as held for sale.

(v) Net investment

(i) Net Parent Investment and Non-Controlling Interests

Amounts shown as net investment include any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An instrument is classified in this category when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable.

(w) Measurement - insurance and participating investment contract liabilities

For insurance contracts and participating investment contracts, IFRS 4 Insurance Contracts permits the continued application, for measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. Therefore the SL Insurance Business applies accounting policies determined in accordance with the ABI SORP as described below. As was permitted under the ABI SORP, the SL Insurance Business adopts local regulatory valuation methods, adjusted for consistency with asset measurement policies, for the measurement of liabilities under insurance contracts and participating investment contracts.

(x) Measurement - Participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities;
- Participating investment contract liabilities;
- PVFP on non-participating contracts, which is treated as a deduction from the gross participating contract liabilities; and
- Unallocated divisible surplus.

The policy for measuring each component is noted below.

(i) Participating insurance and investment contract liabilities

Participating contract liabilities arising under contracts issued by with profits funds which were within the scope of the PRA's realistic capital regime at 31 December 2015 (prior to the introduction of Solvency II) are measured on the PRA realistic basis that was used in the PRA realistic capital regime. Under this approach the value of participating insurance and participating investment contract liabilities in each with profits fund is calculated as:

- With profits benefits reserves (WPBR) for the fund as determined under the PRA realistic basis; plus
- Future policy related liabilities (FPRL) for that fund as determined under the PRA realistic basis; less
- Any amounts due to shareholders included in FPRL; less
- The portion of future profits on non-participating contracts included in FPRL not due to shareholders, where this portion can be separately identified.

The WPBR is primarily based on the retrospective calculation of accumulated asset shares. The aggregate value of individual policy asset shares reflects the actual premium, expense and charge history of each policy. The net investment return credited to the asset shares is consistent with the return achieved on the assets notionally backing participating business. Any mortality deductions are based on published mortality tables adjusted where necessary for experience variations. For those asset shares on an expense basis the allowance for expenses attributed to the asset share is as far as practical the appropriate share of the actual expenses incurred or charged to the fund. For those on a charges basis the allowance is consistent with the charges for an equivalent unit linked policy. The FPRL comprises other components such as a market consistent stochastic valuation of the cost of options and guarantees.

The SL Insurance Business' principal with profits fund is the Heritage With Profits Fund (HWPF). The participating contracts held in the HWPF were issued by a with profits fund that fell within the scope of the PRA realistic capital regime.

On 10 July 2006, The Standard Life Assurance Company (SLAC) demutualised. The demutualisation of SLAC was governed by its Scheme of Demutualisation (the 'Scheme'). Under the Scheme substantially all of the assets and liabilities of SLAC were transferred to the SL Insurance Business.

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the Board of the SL Insurance Business is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. This planned enhancement to the benefits under with profits contracts held in the HWPF is included in the FPRL under the PRA realistic basis resulting in a realistic surplus of £nil. Applying the policy noted above this planned enhancement is therefore included within the measurement of participating contract liabilities.

The Scheme provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Irish business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the SL Insurance Business' Shareholder Fund or Proprietary Business Fund (PBF) and thus accrue to the ultimate benefit of equity holders of Standard Life plc. Under the Scheme such transfers are subject to constraints to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business.

Under the PRA realistic basis the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the FPRL (as a reduction in FPRL where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure of non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to FPRL. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above:

- The value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position is reduced by future expected (net positive) cash flows arising on participating contracts.
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF on the consolidated statement of financial position. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to reduce the value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position.

Some participating contracts are issued by a non-participating fund with a with profits investment element then transferred to a with profits fund within the SL Insurance Business that fell within the scope of the PRA's realistic capital regime. The with profits investment element of such contracts is measured as described above. Any liability for insurance features retained in the non-participating fund is measured using the gross premium method applicable to non-participating contracts (see policy (y)(i)).

(ii) PVFP on non-participating contracts held in a with profits fund

This applies only to the HWPF as no other with profits fund holds non-participating contracts. An amount is recognised for the PVFP on non-participating contracts since the determination of the realistic value of liabilities for with profits contracts in the HWPF takes account of this value. The amount is recognised as a deduction from liabilities. As this amount can be apportioned between an amount recognised in the realistic value of with profits contract liabilities and an amount recognised in the UDS, the apportioned amounts are reflected in the measurement of participating contract liabilities and UDS respectively.

(iii) Unallocated divisible surplus (UDS)

The UDS comprises the difference between the assets and all other recognised liabilities in the SL Insurance Business' with profits funds. This amount is recognised as a liability as it is not considered to be allocated to shareholders due to uncertainty regarding transfers from these funds to shareholders.

In relation to the HWPF, amounts are considered to be allocated to shareholders when they emerge as recourse cash flows within the HWPF.

As a result of the policies for measuring the HWPF's assets and all its other recognised liabilities:

- (i) the UDS of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future recourse cash flows on non-participating contracts), the value of future additional expenses to be charged on German branch business and the effect of any measurement differences between the Realistic Balance Sheet value and IFRS accounting policy value of all assets and all liabilities other than participating contract liabilities recognised in the HWPF.
- (ii) the recourse cash flows are recognised as they emerge as an addition to shareholders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business they are recognised as an addition to equity holders' profits.

(y) Non-participating contract liabilities

(i) Non-participating insurance contracts

The liability for annuity in payment contracts is measured by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from yields on the underlying assets.

Other non-participating insurance contracts are measured using the gross premium method. In general terms, a gross premium valuation basis is a discounted cash flow in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims and costs of maintaining contracts. Cash flows are discounted at the valuation rate of interest determined to reflect conditions at the reporting date in accordance with PRA requirements that existed at 31 December 2015.

(ii) Non-participating investment contracts

Unit linked non-participating investment contracts are separated into two components being an investment management services component and a financial liability. All fees and related administrative expenses are deemed to be associated with the investment management services component (see h(iv), l(ii), (dd)). The financial liability component is designated at FVTPL as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets.

(z) Liability adequacy test

The SL Insurance Business applies a liability adequacy test at each reporting date to ensure that the insurance and participating contract liabilities (less related deferred acquisition costs) are adequate in the light of the estimated future cash flows. This test is performed by comparing the carrying value of the liability and the discounted projections of future cash flows.

If a deficiency is found in the liability (i.e. the carrying value amount of its insurance liabilities is less than the future expected cash flows) that deficiency is provided for in full. The deficiency is recognised in the income statement.

(aa) Borrowings

Borrowings include bank overdrafts and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost with any difference between the carrying value and redemption value being recognised in the income statement over the period of the borrowings on an EIR basis.

(bb) Subordinated liabilities

Subordinated liabilities are debt instruments issued by the SL Insurance Business which rank below its other obligations in the event of liquidation but above the Net parent investment. Subordinated liabilities are initially recognised at the value of proceeds received net of issue expenses. The total finance costs are charged to the income statement over the relevant term of the instrument using the EIR method. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

(cc) Pension costs and other post retirement benefits

The SL Insurance Business operates two types of pension plans for staff:

- Defined benefit plans where the scheme is obligated to provide pension payments upon retirement to members as defined by the scheme rules; and
- Defined contribution plans where the SL Insurance Business has agreed to contribute to a member's pension plan but has no further payment obligations once the contributions have been paid.

SLAL is the sponsoring employer for a number of the defined benefit plans for the Group's employees in the UK, Germany and Ireland and therefore recognises the total net defined cost of the plans. The Group's liabilities in relation to its defined benefit plans are valued by at least annual actuarial calculations. The Group has funded these liabilities in relation to its principal defined benefit plans by ring-fencing assets in an independent trustee-administered fund. The Group has further smaller defined benefit plans which are unfunded.

The statement of financial position reflects a net asset or net liability for each defined benefit pension plan. The liability recognised is the present value of the defined benefit obligation (estimated future cash flows are discounted using the yields on high quality corporate bonds) less the fair value of plan assets, if any. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if SLAL considers that it has an unconditional right to a refund of the surplus from the plan. The amount of surplus recognised will be limited by tax and expenses. Our judgement is that, in the UK, an authorised surplus tax charge is not an income tax. Consequently, the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

Net interest income (if a plan is in surplus) or interest expense (if a plan is in deficit) is calculated using yields on high quality corporate bonds and recognised in the income statement. A current service cost is also recognised which represents the expected present value of the defined benefit pension entitlement earned by members in the period.

Remeasurements, which include gains and losses as a result of changes in actuarial assumptions, the effect of the limit on the plan surplus and returns on plan assets (other than amounts included in net interest) are recognised in the statement of comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

For defined contribution plans, the SL Insurance Business pays contributions to publicly or privately administered pension insurance plans. The SL Insurance Business has no further payment obligations once the contributions have been paid. The contributions are recognised in staff costs and other employee-related costs when they are due.

(dd) Deferred income

Front-end fees on service contracts, including investment management service contracts are deferred as a liability and amortised to the income statement over the period services are provided.

(ee) Provisions and contingent liabilities

Provisions are recognised when the SL Insurance Business has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Contingent liabilities are possible obligations of the SL Insurance Business of which timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position but are disclosed, unless they are considered remote. If such an obligation becomes probable and the amount can be measured reliably it is no longer considered contingent and is recognised as a liability. Contingent assets are disclosed if the inflow of economic benefits is probable, but not virtually certain.

(ff) Dividends and appropriations

Final dividends on share capital of legal entities within the deal perimeter classified as equity instruments are recognised in equity when they have been approved by shareholders. Interim dividends on these shares are recognised in equity in the period in which they are paid. Coupon payments on debt instruments classified as equity instruments are recognised as appropriations of equity in the period in which they are paid.

(gg) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where the SL Insurance Business is the lessee, payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Where the SL Insurance Business is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. Initial direct costs incurred in arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

(hh) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The SL Insurance Business retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- The SL Insurance Business has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the income statement.

(ii) Operating Profit

The SL Insurance Business has chosen to report a non-GAAP measure of performance, being operating profit. Operating profit excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing certain shareholder and policyholder funds over the period, with consistent allowance for the

corresponding expected movements in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer-term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the SL Insurance business' core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- finance costs attributable to owners;
- gains or losses on the disposal of subsidiaries, associates or joint ventures (net of related costs of disposal);
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the view of the SL Insurance Business, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the financial performance of the business. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

1.2 Fund structures and insurance, investment and reinsurance contract terms

The SL Insurance Business operates a fund structure which was established on the demutualisation of The Standard Life Assurance Company (SLAC) on 10 July 2006, under which its recognised assets and liabilities are allocated to one of the following funds:

- Shareholder Fund (SHF)
- Proprietary Business Fund (PBF) – includes UK, German and Irish branches
- Heritage With Profits Fund (HWPF) – includes UK, German and Irish branches
- German With Profits Fund (GWPF)
- German Smoothed Managed With Profits Fund (GSMWPF)
- UK Smoothed Managed With Profits Fund (UKSMWPF)

(a) Fund Structure

(i) Insurance and investment contracts issued since demutualisation

The liabilities and associated supporting assets for contracts issued since demutualisation are held in the PBF except for the element of any contract where the customer has chosen to invest in a with profits (i.e. participating) fund. The assets and associated liabilities, including liabilities for financial guarantees, for such with profits investment elements are held in the GWPF, GSMWPF or UKSMWPF. The PBF is sub-divided into internal linked funds (unit linked funds) and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and corresponding liabilities for such unit linked investment elements are held in the unit linked funds. Asset management charges are transferred from the unit linked funds to the non-unit linked sub-fund of the PBF as they arise. Any liabilities for insurance features or financial guarantees contained

within a contract that has a unit linked investment element are held in the non-unit linked sub-fund of the PBF. Any liabilities for insurance features contained within a contract that has a with profits element are held in the non-unit linked sub-fund of the PBF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are held in the non-unit linked sub-fund of the PBF.

(ii) Insurance and investment contracts issued before demutualisation

The liabilities and associated supporting assets for contracts, both participating and non-participating, issued prior to demutualisation are mostly held in the HWPF except for (i) the assets and corresponding liabilities for unit linked investment elements of such contracts, and (ii) the supporting assets and associated liabilities for longevity risk and investment risk on certain annuity contracts. The assets and associated liabilities for these two contract components are held in the PBF. Asset management charges arising on unit linked investment elements are transferred from the PBF to the HWPF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element or a with profits investment element are held in the HWPF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are also held in the HWPF.

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the board of the SL Insurance Business is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF.

The Scheme provides that certain defined cash flows (recourse cash flows (RCF)) arising in the HWPF on specified blocks of UK and Ireland business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the SHF, and thus accrue to the ultimate benefit of shareholders of the SL Insurance Business. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of Germany branch business. Under these mechanisms profits, on an RCF basis, on non-participating business excluding investment spread profits on annuities and profits, on an RCF basis or German additional expenses basis, on unitised with profits contracts are transferred to the SHF. All investment return on the HWPF investments is retained in the HWPF for the ultimate benefit of participating policyholders. Under the Scheme, transfers to the SHF are subject to certain constraints in order to protect policyholders.

(b) Insurance, investment and reinsurance contract terms including guarantees and options

Details of the significant types of insurance and investment contracts issued, the nature of any guarantees and options provided under these contracts and details of significant reinsurance contracts are given below.

(i) Insurance and investment contracts issued since demutualisation UK annuity-in-payment contracts

This class of business consists of single premium contracts that provide guaranteed annuity payments. The payments depend on the survival of a life or lives with or without a guaranteed period and may reduce on a specified death or increase each year at a predefined rate or based on the increase in the UK RPI. These contracts are classified as non-participating insurance contracts.

The total liability at 31 December 2017 for Retail Price Index (RPI) linked annuities in payment (including any guaranteed minimum rate of escalation) is £457m (2016: £445m; 2015: £373m) and this represents approximately 10% (2016: 10%; 2015: 9%) of the total liability for UK annuity in payment contracts held within the PBF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall. If the market moves in line with the adverse scenarios as shown in the market risk sensitivity analysis in Note 37 (b)(ii) below, then the impact on shareholder equity from these RPI linked annuities and corresponding assets is not significant.

For those annuities in payment which increase at a predefined rate, the total liability at 31 December 2017 is £458m (2016: £432m; 2015: £348m) and this represents approximately 10% (2016: 10%; 2015: 9%) of the total liability for UK annuity in payment contracts held in the PBF.

If the market moves in line with the adverse market conditions as shown in the market risk sensitivity analysis, the impact on shareholder equity from those annuities with a predefined rate of increase and the corresponding assets is not significant.

UK and Ireland unit linked pension contracts

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts.

The major unit linked pension contracts include UK Active Money Self Invested Personal Pensions (SIPP), UK Active Money Personal Pension, UK Stakeholder, Irish Synergy Personal Pension, UK Group SIPP, UK Group Flexible Retirement Plan, UK Group Stakeholder and Trustee Investment Plan. These contracts do not contain a with profits investment option except for UK Group Stakeholder and UK Stakeholder under which customers may invest in the UKSMWPF.

The costs of contracts invested in unit linked funds are recovered by deduction of an asset management charge from the unit linked funds. Under Stakeholder contracts, this asset management charge has a specified maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

Under UK SIPP contracts, as well as investing in unit linked funds offered by the SL Insurance Business, policyholders can choose to invest in a wide range of other permitted investments. These other investments are not recognised on the SL Insurance Business' statement of financial position.

UK unit linked investment bonds

Unit linked investment bonds (e.g. Capital Investment Bond) are single premium whole life contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

German unit linked deferred annuity contracts

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts provide a return of premiums guarantee on death and the option to take up an annuity on guaranteed terms. They are classified as non-participating insurance contracts. These contracts do not contain a with profits investment option.

German unitised with profits deferred annuity contracts

German unitised with profits deferred annuities contracts were written in the PBF with the participating investment elements being transferred to the GWPF and, to a significantly lesser extent, to the GSMWPF. These contracts were closed to new business in 2015. The death benefit under all of the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the fund value, and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value of contracts invested in the GWPF is subject to guaranteed minimum amounts. In addition, certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors and certain unit prices in the GWPF are guaranteed not to decrease.

The GWPF is operated such that all investment return on assets held in the fund will be distributed to participating policyholders over time subject to deductions of asset management charges and deductions for guarantees.

(ii) Insurance and investment contracts issued before demutualisation and related reinsurance contracts

HWPF participating contract allocations of regular and final bonuses

This section firstly describes the method used by the SL Insurance Business to determine the regular and final bonuses allocated to participating contracts held in the HWPF. It then describes the significant types of insurance and investment contracts held in that fund, the nature of any guarantees provided and significant reinsurance contracts.

As shown in the market risk sensitivity analysis in Note 37, there is no impact on shareholder equity arising from contracts in the HWPF for either of the market movements scenarios. As explained in the limitations of the sensitivity analysis, this is because although shareholders are potentially exposed to the full cost if the assets of the HWPF are insufficient to meet policyholder obligations, the assumption changes given are not severe enough for such an event to occur.

Regular bonuses are declared at the discretion of the SL Insurance Business in accordance with the Principles and Practices of Financial Management (PPFM) of the HWPF for UK business and similar principles for European business and are set at levels which aim to achieve a gradual build-up in guaranteed participating policy benefits whilst not unduly constraining investment freedom and the prospects for final bonuses. In setting these rates, the financial position (both current and projected) of the HWPF is taken into account, and were it necessary, regular bonus rates would be set to zero. Regular bonus rates are set for each relevant class of participating policy and/or internal fund and reflect its characteristics, including any guarantees.

For some contracts, final bonuses may also be paid. These bonuses are not guaranteed and can be withdrawn at any time.

The SL Insurance Business' aim is that, subject to meeting all contractual obligations and maintaining an adequate financial position, payouts on a participating policy (including any final bonus applying) should fairly reflect the experience of the HWPF applicable to such a policy, after any adjustments for smoothing, and any distribution of the residual estate deemed appropriate by the SL Insurance Business.

When setting payout levels, the SL Insurance Business seeks to ensure fair treatment between those participating policyholders who choose to withdraw and those who remain.

Asset shares are used as a tool to determine fair treatment. The calculation of asset shares varies between products, for example calculations can be on the basis of representative policies or on an individual policy basis.

The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. The SL Insurance Business reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

In normal circumstances the SL Insurance Business seeks to offer some smoothing of investment returns to participating policyholders at the time of claims due to maturity for life policies or for pension policies where the SL Insurance Business has no right to reduce benefits as defined in the relevant contractual terms and conditions. The SL Insurance Business may, at its discretion, also provide some smoothing of investment returns for death claims and some types of withdrawal at the time of payment. The SL Insurance Business aims to operate smoothing of investment returns in such a way as to be neutral for participating policyholders as a whole over time. The SL Insurance Business monitors the anticipated cost of smoothing on a regular basis and, in most circumstances, will reflect the costs in payouts and in some circumstances adjust the approach to smoothing.

When calculating asset shares, the SL Insurance Business may, at its discretion, make fair deductions to reflect its assessment of the cost of guarantees. The SL Insurance Business takes an allowance for the assessed costs of guarantees when determining final bonuses payable on claims, calculating policy switch values and calculating surrender and transfer values. These allowances vary between types of policies, reflecting the nature of the guarantees provided. These allowances are kept under review. A deduction is also taken from participating asset shares determined on an expense basis of 0.5% pa as a contribution to the capital of the HWPF.

For policies eligible for a payment under Standard Life's Mortgage Endowment Promise, an additional payment may be made on maturity subject to and in accordance with the terms of the Mortgage Endowment Promise as set out in the Scheme.

UK conventional with profits contracts (no impact on shareholder profits in absence of burnthrough)

Conventional (i.e. non-unitised) with profits contracts consist of single or regular premium endowment, whole life and pension contracts held in the HWPF.

Under endowment and whole life contracts guaranteed benefits are payable on death. Regular bonuses may be added to the guaranteed sum assured over the term of the policy and, in addition, a final bonus may be paid on death and maturity. Certain endowment assurances have minimum surrender value provisions and minimum paid-up values.

Under pension contracts a minimum level of benefit is set at the outset and applies at the date(s) specified in the policy, for example under pure endowment contracts. Regular bonuses may be added to this initial minimum over the term of the policy and, in addition, a final bonus may be paid. Guaranteed annuity options providing for payment of a minimum annuity, in lieu of a cash sum, are available under pure endowment contracts. Under some of these contracts the guarantee applies only at the maturity date. Under other contracts, the option also applies for a specified period preceding the maturity date, in which case the sum assured and bonuses are reduced by specified factors and different guaranteed annuity rates apply.

All conventional with profits contracts are classified as participating insurance contracts.

UK and Ireland unitised with profits pension contracts

This class of business comprises single or regular premium contracts held in the HWPF under which a percentage of the premium is allocated to units on a participating basis. Such contracts include hybrid contracts (see accounting policy 1(g)) resulting in the unitised with profits investment elements being classified as participating investment contracts, although there are some contracts that are classified as participating insurance contracts, for example those with guaranteed minimum pensions. The major unitised with profits pension contracts include Individual Personal Pension Plans, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed either that the unit price will rise at an annual rate of at least 4% per year or that the unit price will not fall, and, that there will be no unit price adjustment (UPA) at specified retirement dates or death
- Certain Trustee Investment Plan contracts where, subject to specified conditions and limits, it is guaranteed that there will be no unit price adjustment (UPA) when units are encashed.

UK and Ireland unitised with profits life contracts

Unitised with profits life business comprises single or regular premium endowment and whole life contracts held in the HWPF under which a percentage of the premium is allocated to units on a participating basis. The death benefit under regular premium contracts is the greater of the bid value of units allocated and sum assured under the contract. Some contracts also contain critical illness cover providing for payment of a critical illness sum assured on diagnosis of certain defined serious illnesses. These contracts, principally Homeplan, With Profits Bonds and Versatile Investment Plans, are classified as participating insurance contracts.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed on death or maturity either that the unit price will rise at an annual rate of at least 3% a year or that the unit price will not fall, and, that there will be no UPA at maturity
- For bonds it is guaranteed that no UPA will apply on regular withdrawals up to certain specified limits.

Under contracts effected in connection with house purchase the death benefit is guaranteed. Under other regular premium contracts, at any time after the first ten years, the SL Insurance

Business may review the status of the contract and, if it deems it necessary, the sum assured may be reduced, within the limits permitted.

Under some contracts affected in connection with house purchase, provided the original contract is still in force the following options can normally be exercised at any time before the 55th birthday of the life assured:

- Future insurability option under which a new contract can be effected on then current premium rates, in connection with a further loan, up to the level of life and basic critical illness cover available on the original contract, without any further evidence of health
- Term extension option on then current premium rates under which the term of the contract may be extended by a whole number of years if the lender agrees to extend the term of the loan

German unitised with profits contracts

Unitised with profits German contracts held in the HWPF mainly consist of endowment assurances and deferred annuities, under which a percentage of each premium is applied to purchase units on a participating basis. The death benefit under endowment assurances is the greater of the sum assured on death or 105% of the current surrender value. The death benefit under deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the fund value and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value, and for certain contracts the surrender benefits, are subject to guaranteed minimum amounts. For some participating unitised policies it is guaranteed that there will be no UPA on claims on or after the surrender option date. Certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors. In addition certain unit prices in the HWPF are guaranteed not to decrease.

UK and Ireland unit linked pension contracts

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds held in the PBF.

Such contracts include hybrid contracts (see accounting policy (g)) resulting in the unit linked investment elements being classified as non-participating investment contracts. The major unit linked pension contracts include Individual Personal Pension Plans, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF. Under Stakeholder contracts, this asset management charge has a maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

UK and Ireland unit linked life contracts

This class of business comprises principally unit linked investment bonds (e.g. Capital Investment Bonds), classified as non-participating investment contracts and the unit linked investment element of Home plan contracts, classified as non-participating insurance contracts. No significant guarantees, other than the guaranteed death benefit on Home plan contracts, are provided under these contracts.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF.

UK and Ireland annuity-in-payment contracts (no impact on shareholder profits in absence of burn through)

This class of business consists of the same type of contracts described in (b) (i) above and also includes the With Profit Pension Annuity (WPPA) under which changes to the level of annuity are based on a declared rate of return but reductions in the level of the annuity are limited. These contracts are classified as non-participating insurance contracts, except for the WPPA which is classified as a participating insurance contract.

The SL Insurance Business has reinsured both the longevity and market risk arising on a portfolio of annuity-in-payment contracts held within the HWPF. In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. In respect of this arrangement the SL Insurance Business holds a ring fenced pool of assets within the HWPF. See Note 34 on credit exposure and Note 5 – Expenses under arrangements with reinsurers for further details of the deposit back. A floating charge over the ring fenced pool of assets has been granted to the reinsurer. The reinsurance asset recognised in relation to this arrangement is £4,645m (2016: £5,190m; 2015: £5,258m). The longevity risk on certain non-participating annuity-in-payment contracts held in the HWPF has been transferred to the PBF. The market risk on certain annuities has been transferred to the PBF. For those annuities in payment which increase at a predefined rate the total liability at 31 December 2017 is £2,755m (2016: £2,951m; 2015: £2,869m) and this represents approximately 33% (2016: 32%; 2015: 33%) of the total liability for UK annuity in payment contracts held within the HWPF.

The total liability at 31 December 2017 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,806m (2016: £1,983m; 2015: £1,811m) and this represents approximately 22% (2016: 22%; 2015: 21%) of the total liability for UK annuity in payment contracts held within the HWPF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall.

UK other non-participating contracts

This class of business consists primarily of deferred annuities that provide guaranteed annuity payments from the retirement age associated with the relevant pension plan. The payments depend on the survival of a life or lives with or without a guarantee period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in UK RPI. These contracts are classified as non-participating insurance contracts

2 Operating profit

The following table is an analysis of Standard Life's Insurance Business operating profit for the years ended 31 December 2017, 2016 and 2015.

31 December 2017

	2017	2016	2015
		(<i>£m</i>)	
Fee based revenue.....	790	748	704
Spread/risk margin.....	148	110	129
Operating income	938	858	833
Operating expenses.....	(611)	(548)	(550)
Capital management	39	53	43
Operating profit before adjusting items ..	366	363	326

The following table reconciles Standard Life's Insurance Business' operating profit before adjusting items to IFRS profit after tax for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	2015
		(<i>£m</i>)	
Operating profit before adjusting items ..	366	363	326
Adjusted for the following items:			
Investment return variances and economic assumption changes on long-term business	135	50	8
Variance on owners' funds.....	(3)	26	(7)
Provision for annuity sales practices	(100)	(175)	—
Other.....	(10)	(12)	(103)
Profit before finance costs attributable to owners.....	388	252	224
Finance costs attributable to owners	(20)	(20)	(20)
Profit attributable to Non controlling interest - other.....	24	45	45
Profit before tax attributable to equity holders profits	392	277	249
Shareholder tax.....	(48)	(38)	(40)
Profit after tax attributable to holders of Net Investment	344	239	209

3 Investment return

	2017	2016	2015
		(<i>£m</i>)	
Financial instruments other than those at FVTPL			
Interest income			

	2017	2016	2015
		<i>(£m)</i>	
Cash and cash equivalents	48	79	82
Loans	36	22	22
Other	2	6	7
	<u>86</u>	<u>107</u>	<u>111</u>
Impairment losses on subsidiaries	—	—	—
Foreign exchange losses on instruments other than at FVTPL	(73)	(80)	21
Gains/(Losses) on financial instruments other than those at FVTPL	<u>13</u>	<u>27</u>	<u>132</u>
Financial instruments at FVTPL			
Dividend income	2,225	2,033	1,960
Gains/(losses) on financial instruments held at FVTPL⁽¹⁾			
Equity securities and interests in pooled investment funds	8,686	9,911	1,315
Debt securities	1,287	6,914	(222)
Derivative financial instruments	(354)	(3,702)	1,168
Loans	26	9	3
Assets held for sale	(2)	1	—
	<u>9,643</u>	<u>13,133</u>	<u>2,264</u>
Gains on financial instruments held at FVTPL	<u>11,868</u>	<u>15,166</u>	<u>4,224</u>
Investment property			
Rental income	430	369	405
Net fair value gains/(losses) on investment property	490	(141)	387
	<u>920</u>	<u>228</u>	<u>792</u>
Total investment return	<u><u>12,801</u></u>	<u><u>15,421</u></u>	<u><u>5,148</u></u>

Note:

(1) Gains/(losses) including interest income, excluding dividend income

4 Fee income

	Note	2017	2016	2015
			<i>(£m)</i>	
Fee income on investment contracts		589	569	559

	Note	2017	2016	2015
			(<i>£m</i>)	
Fee income deferred during the year	29	(11)	(14)	(24)
Amortisation of deferred income	29	51	59	60
Other fee income		4	5	5
Total fee income		<u>633</u>	<u>619</u>	<u>600</u>

5 Expenses under arrangements with reinsurers

	2017	2016	2015
		(<i>£m</i>)	
Interest payable on deposits from reinsurers	21	31	34
Premium Adjustments	181	478	8
Expenses under arrangements with reinsurers	<u>202</u>	<u>509</u>	<u>42</u>

The SL Insurance Business has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within its Heritage With Profits Fund. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the SL Insurance Business. Interest is payable on the deposit at a floating rate. The SL Insurance Business maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the SL Insurance Business from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the SL Insurance Business is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to these expenses under arrangements with reinsurers.

6 Administrative expenses

	Note	2017	2016	2015
			(<i>£m</i>)	
Commission expenses		146	152	169
Other interest expenses		4	3	7
Staff costs and other employee related costs	7	161	164	221
Impairment losses reversed on property and equipment	13	(4)	—	(1)
Impairment losses on intangible assets	10	31	1	4
Amortisation of intangible assets	10	15	15	8
Investment management expenses		168	178	182

	<u>Note</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
			(<i>£m</i>)	
Other.....		523	496	554
		1,044	1,009	1,144
Acquisition costs deferred during the year...	11	(46)	(49)	(70)
Amortisation of deferred acquisition costs ..	11	77	85	85
Total administrative expenses.....		<u>1,075</u>	<u>1,045</u>	<u>1,159</u>

The historical financial information of the SL Insurance business includes costs of £26m (2016: £34m; 2015: £42m) the future equivalents of which will not be incurred by the business going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group.

7 Staff costs and other employee related costs

The majority of staff who manage the affairs of the SL Insurance Business are employed by SLESL, another subsidiary of Standard Life plc.

	<u>Note</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
			(<i>£m</i>)	
The aggregate remuneration payable in respect of employees was:				
Wages and salaries.....		155	151	164
Social security costs.....		17	16	18
Other pension costs:.....				
Defined benefit plan		(26)	(17)	26
Defined contribution plan		15	14	13
Total staff costs and other employee related costs	6	<u>161</u>	<u>164</u>	<u>221</u>

	<u>2017</u>	<u>2016</u>	<u>2015</u>
The average yearly number of staff employed by the SL Insurance Business during the year was:			
United Kingdom	2,711	2,599	2,809
International.....	474	497	533
Total average number of staff employed .	<u>3,185</u>	<u>3,096</u>	<u>3,342</u>

The staff costs recharged to the SL Insurance Business will be transferred as part of the Transaction perimeter and are included above.

8 Tax expense

The total tax expense is attributed as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(£m)	
Tax expense attributable to policyholders' returns.....	159	233	80
Tax expense attributable to shareholders' profits.....	48	38	40
Total tax expense	<u>207</u>	<u>271</u>	<u>120</u>

The standard UK corporation tax rate for the accounting period is 19.25%. The UK corporation tax rate will reduce to 17% from 1 April 2020. These future rate changes have been taken into account in the calculation of the UK deferred tax balance at 31 December 2017.

(a) ***Tax expense***

	<u>Note</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
			(£m)	
Current tax:				
United Kingdom		192	209	102
International.....		9	14	9
Adjustment to current tax expense in respect of prior years		5	6	7
Total current tax		<u>206</u>	<u>229</u>	<u>118</u>
Deferred tax:				
Deferred tax expense arising from the current year.....		36	31	4
Adjustment to deferred tax expense in respect of prior years		(35)	11	(2)
Total deferred tax	14	<u>1</u>	<u>42</u>	<u>2</u>
Total tax expense		<u>207</u>	<u>271</u>	<u>120</u>
Attributable to shareholders' profits		<u>48</u>	<u>38</u>	<u>40</u>

Unrecognised losses of nil were used to reduce current tax expense (2016: £1m; 2015: £1m).

Unrecognised losses of nil were used to reduce deferred tax expense (2016: £7m; 2015: £3m)

(b) ***Tax relating to components of other comprehensive income***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(£m)	
Tax on actuarial (losses)/gain on defined benefit pension schemes	(6)	2	—
Tax relating to each component of comprehensive income	<u>(6)</u>	<u>2</u>	<u>—</u>

(c) *Reconciliation of tax expense*

	2017	2016	2015
	_____	_____	_____
		(£m)	
	_____	_____	_____
Profit before tax	551	510	329
Tax at 2017:19.25% (2016: 20%; 2015: 20.25%)	106	102	67
Policyholder tax (net of tax at UK standard rate)	128	186	64
Permanent differences	(11)	(15)	(10)
Tax effect of accounting for non- controlling interest.....	(5)	(9)	(9)
Temporary timing differences	—	(1)	—
Different tax rates	(6)	(1)	(9)
Adjustment to current tax expense in respect of prior years	5	6	7
Recognition of previously unrecognised tax credit.....	—	(8)	—
Deferred tax not recognised.....	—	—	15
Adjustment to deferred tax expense in respect of prior years	(35)	11	(2)
Write down (reversal) of DT assets .	26	—	—
Other.....	(1)	—	(3)
Total tax expense for the year	<u>207</u>	<u>271</u>	<u>120</u>

The ability to value losses and other tax assets will also affect the actual tax charge. The write down of deferred tax asset of £26m relates to a reduction in the valuation of the German tax reserves primarily due to the expected impact of Brexit restructuring and adjustments to our transfer pricing methodology. The adjustment to deferred tax expense in respect of prior years of £35m relates mainly to a change in valuation of German temporary differences due to the changed economics of that business leading to adjustments to our transfer pricing methodology. All these items are expected to be non-recurring.

9 Dividends and appropriations

The directors of SLAL have proposed a final dividend for the year of 19 pence per ordinary share (2016: 11.2 pence) totalling £312m (2016: £180; 2015: £170m). There was no interim dividend paid for 2017 (2016: nil; 2015: nil).

An appropriation of £34m (2016: £34m; 2015: £34m) was paid to Standard Life Aberdeen plc in the year in respect of the sterling subordinated guaranteed bonds.

10 Intangible assets

	Note	2017	2016	2015
			(£m)	
Gross amount				
At 1 January		168	129	96
Additions		36	44	34
Disposals		—	(7)	—
Foreign exchange adjustment		1	2	(1)
At 31 December		<u>205</u>	<u>168</u>	<u>129</u>
Accumulated amortisation				
At 1 January		(73)	(63)	(52)
Amortisation charge for the year	6	(15)	(15)	(8)
Impairment losses recognised.....	6	(31)	(1)	(4)
Amortisation on disposal		—	7	—
Foreign exchange adjustment		(1)	(1)	1
At 31 December		<u>(120)</u>	<u>(73)</u>	<u>(63)</u>
Carrying amount at 1 January		<u>95</u>	<u>66</u>	<u>43</u>
Carrying amount at 31 December		<u>85</u>	<u>95</u>	<u>66</u>

Intangible assets consist wholly of internally generated software. Of the total carrying value above, £37m relates to intangible assets not yet ready for use (2016: £43m; 2015: £25m).

Of the SL Insurance Business' intangible assets, the majority of additions relates to the Evolve IT Project, which is being undertaken to modernise and simplify our products and applications. In 2017 an impairment charge of £31m (2016 and 2015: nil) was recognised in respect of the intangible asset that was being built to allow a move away from the existing mainframe. Following technical challenges in this part of the project we discontinued this part of the project and a full impairment of that intangible asset has been recognised. The carrying value of the remaining Evolve IT intangible asset at 31 December 2017 is £26m (2016: £29m; 2015: £5m) and the amortisation period of the assets will be between 6 and 10 years.

The intangible assets do not include intangible assets of SLESL which will be transferred into the SL Insurance Business as part of the Transaction as the list of such assets was not finalised at the time of preparation of this historical financial information.

11 Deferred acquisition costs

	Note	2017	2016	2015
			(£m)	
At 1 January		623	615	657

	Note	2017	2016	2015
			(£m)	
Additions during the year	6	46	49	70
Amortisation charge.....	6	(77)	(85)	(85)
Impairment charge.....		—	—	(14)
Foreign exchange adjustment		14	44	(13)
At 31 December		<u>606</u>	<u>623</u>	<u>615</u>

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £533m (2016: £545m; 2015: £533m).

Included in deferred acquisition costs above are costs deferred on investment contracts (known as deferred origination costs) amounting to £350m (2016: £379m; 2015: £407m).

12 Investment property

	2017	2016	2015
		(£m)	
At 1 January	6,653	8,437	8,087
Additions - acquisitions	2,117	240	1,558
Additions - subsequent expenditure.....	117	105	240
Net fair value (losses)/ gains.....	490	(141)	387
Foreign exchange adjustment	12	44	(8)
Disposals	(526)	(1,827)	(1,722)
Reclassification between investment property and debt securities	(319)	—	—
Reclassified as held for sale during the year	(170)	(191)	(123)
Other.....	—	(14)	18
At 31 December	<u>8,374</u>	<u>6,653</u>	<u>8,437</u>
The fair value of investment property can be analysed as:			
Freehold.....	6,689	4,933	6,344
Long leasehold.....	1,685	1,720	2,027
Short leasehold	—	—	66
	<u>8,374</u>	<u>6,653</u>	<u>8,437</u>

The rental income arising from investment property during the year amounted to £430m (2016: £369m; 2015: £405m), which is included in investment return (set out in Note 3). Direct operating expenses (included within

other administrative expenses) arising in respect of such property during the year amounted to £53m (2016: £44m; 2015: £47m).

The methods and assumptions used to determine fair value for investment property and property under development are discussed in Note 36 – Fair value of assets and liabilities. All property valuations are provided by independent qualified professional valuers at 31 December 2017 (31 December 2016; 31 December 2015) or as at a date that is not more than three months before 31 December 2017 (31 December 2016; 31 December 2015). Where valuations have been undertaken at dates prior to the end of the reporting period adjustments are made where appropriate to reflect the impact of changes in market conditions between the date of these valuations and the end of the reporting period.

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment property were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(<i>£m</i>)	
Not later than one year.....	399	323	396
Later than one year and no later than five years.....	1,287	1,042	1,290
Later than five years	3,127	3,433	3,787
Total operating lease receivables	<u>4,813</u>	<u>4,798</u>	<u>5,473</u>

13 Property and equipment

	<u>Note</u>	<u>Owner occupied property</u>	<u>Equipment</u>	<u>Total</u>
			(<i>£m</i>)	
Cost or valuation				
At 1 January 2017.....		7	4	11
Impairment losses reversed.....	6	4	—	4
Reclassified as held for sale during the year		(4)	—	(4)
At 31 December 2017		<u>7</u>	<u>4</u>	<u>11</u>
Accumulated depreciation				
At 1 January 2017		—	(4)	(4)
At 31 December 2017		—	(4)	(4)
Carrying amount at 31 December 2017 ...		7	—	7

	Note	Owner occupied property	Equipment (£m)	Total
Cost or valuation				
At 1 January 2016.....		31	4	35
Additions		1	—	1
Disposals		(22)	—	(22)
Revaluations	25	5	—	5
Reclassified as held for sale during the year		(8)	—	(8)
At 31 December 2016.....		7	4	11
Accumulated depreciation				
At 1 January 2016.....		—	(4)	(4)
At 31 December 2016.....		—	(4)	(4)
Carrying amount at 31 December 2016 ...		7	—	7

	Note	Owner occupied property	Equipment (£m)	Total
Cost or valuation				
At 1 January 2015.....		118	4	122
Disposals		(92)	—	(92)
Impairment losses reversed.....	6	1	—	1
Revaluations	25	4	—	4
At 31 December 2015.....		31	4	35
Accumulated depreciation				
At 1 January 2015.....		—	(4)	(4)
At 31 December 2015.....		—	(4)	(4)
Carrying amount at 31 December 2015 ...		31	—	31

If owner occupied property was measured using the cost model, the carrying amounts would be £8m (2016: £25m; 2015: £48m). Where the expected residual value of owner occupied property is in line with the current fair value, no depreciation is charged. Equipment primarily consists of computer equipment.

The methods and assumptions used to value owner occupied property are the same as those for investment property set out in Note 12 – Investment property and are discussed in Note 36 – Fair value of assets and liabilities.

The property, plant and equipment do not include property, plant and equipment of SLESL which will be transferred into the SL Insurance Business as part of the Transaction as the list of such assets was not finalised at the time of preparation of this historical financial information.

14 Tax assets and liabilities

	Note	2017	2016	2015
			(£m)	
Current tax recoverable.....	19	165	158	158
Deferred tax assets.....		11	16	7
Total tax assets		<u>176</u>	<u>174</u>	<u>165</u>
Current tax liabilities		116	81	88
Deferred tax liabilities		235	231	176
Total tax liabilities		<u><u>351</u></u>	<u><u>312</u></u>	<u><u>264</u></u>

There are no current tax assets or liabilities expected to be recoverable or payable in more than 12 months (2016 & 2015: £nil).

(a) Recognised deferred tax

	Note	2017	2016	2015
			(£m)	
Deferred tax assets comprise:				
Actuarial liabilities		—	—	5
Losses carried forward.....		6	8	6
Depreciable assets		5	34	31
Deferred income		8	12	20
Insurance related items		—	—	5
Tax acquisition expenses		6	5	7
Temporary timing differences		1	20	15
Other.....		—	—	3
Gross deferred tax assets		<u>26</u>	<u>79</u>	<u>92</u>
Less: offset against deferred tax liabilities		(15)	(63)	(85)
Net deferred tax assets		<u>11</u>	<u>16</u>	<u>7</u>
Deferred tax liabilities comprise:				
Unrealised gains on investment securities.....		193	184	146
Deferred acquisition costs.....		53	104	108
Insurance related items		4	5	6
Temporary timing differences		—	1	1
Gross deferred tax liabilities		<u>250</u>	<u>294</u>	<u>261</u>
Less: offset against deferred tax assets.....		(15)	(63)	(85)
Net deferred tax liabilities		<u><u>235</u></u>	<u><u>231</u></u>	<u><u>176</u></u>

	Note	2017	2016	2015
			(£m)	
Movements in deferred tax assets/(liabilities) comprise:				
At 1 January		(215)	(169)	(165)
Amounts debited to net profit.....	8	(1)	(42)	(2)
Amounts (charged)/credited directly to equity.....		(6)	2	—
Exchange differences.....		(2)	(6)	(2)
At 31 December		(224)	(215)	(169)

Deferred tax assets and liabilities are netted off to the extent that legal offset is available under local tax law.

A deferred tax asset of £6m (2016: £8m; 2015: £6m) has been recognised in respect of the losses of the overseas branches and subsidiaries of SLAL. Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods.

The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans. The losses do not have an expiry date.

(b) Unrecognised deferred tax

Due to uncertainty regarding recoverability, deferred tax has not been recognised in respect of the following assets/ (liabilities):

- Tax reserves of the German branch of the SL Insurance Business of £102m (2016: £20m; 2015: £26m).
- Unrealised investment and trading losses of £78m (2016: £88m; 2015: £163m).
- Irish pension deficit of £42m (recognised in 2016 and 2015).

15 Financial investments

	Note	2017	2016	2015
			(£m)	
Financial investments at FVTPL:				
Classified as held for trading:				
Derivative financial assets	17	3,026	3,517	2,441
Total financial investments designated as held for trading		3,026	3,517	2,441
Designated upon recognition:				
Equity securities and interests in pooled investment funds.....	36	96,067	90,619	76,370

	Note	2017	2016	2015
			(£m)	
Debt securities	36	59,457	64,633	64,227
Total financial investments designated upon initial recognition		155,524	155,252	140,597
Total financial investments at FVTPL		158,550	158,769	143,038
Loans and receivables:				
Loans	16	105	314	791
Receivables and other financial assets	18	616	857	1,155
Cash and cash equivalents	21	8,677	7,299	9,084
Total loans and receivables		9,398	8,470	11,030
Total financial investments		167,948	167,239	154,068

The amount of debt securities expected to be recovered after more than 12 months is £49,157m (2016: £52,936m; 2015: £45,672m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

16 Loans

	Note	2017	2016	2015
			(£m)	
Loans comprise:				
Loans secured by mortgages	36	57	72	87
Loans secured on policies		2	2	3
Deposits with banks in excess of 3 months..		46	240	701
Total loans	15	105	314	791

Loans with variable rates and fixed interest rates are £53m and £52m respectively (2016: £72m and £242m; 2015: £120m and £671m respectively). Loans that are expected to be recovered after more than 12 months are £60m (2016: £88m; 2015: £138m).

17 Derivative financial instruments

The SL Insurance Business uses derivative financial instruments in order to match contractual liabilities, to reduce the risk from potential movements in foreign exchange rates, equity indices, property indices and interest rates, to achieve efficient portfolio management or for the transfer of risk between business units.

All derivative instruments have been classified as held for trading and are not part of a designated hedge relationship.

The following table provides an analysis of derivative instruments:

	2017			2016			2015		
	Contract amount	Fair value assets	Fair value liabilities	Contract amount	Fair value assets	Fair value liabilities	Contract amount	Fair value assets	Fair value liabilities
	(£m)								
Equity derivatives:.....									
Futures.....	13,186	155	111	5,879	32	88	12,652	18	129
Options.....	7,360	760	36	3,389	571	8	4,752	661	3
Variance swaps.....	13	44	50	17	27	22	28	25	20
Total return swaps.....	710	4	16	2,311	3	38	3,652	18	50
Interest rate derivatives:									
Interest rate swaps.....	64,904	685	214	22,378	761	147	81,010	748	458
Interest rate floors.....	40	6	—	44	8	—	63	11	—
Swaptions.....	6,508	834	6	5,971	1,098	-	7,134	704	5
Foreign exchange derivatives:									
Forwards.....	34,356	323	229	40,649	690	495	30,394	202	482
Options.....	—	—	—	—	—	—	1,276	—	11
Other derivatives:									
Inflation rate swaps.....	5,278	37	46	1,995	26	40	1,100	5	26
Credit default swaps.....	967	62	10	1,256	55	17	1,619	36	3
Bond derivatives:									
Futures.....	25,065	116	50	34,006	246	95	8,861	13	52
Total derivative financial instruments held for trading.....	158,387	3,026	768	117,895	3,517	950	152,541	2,441	1,239

Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

	31 December 2017						
	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
	(£m)						
Cash inflows							
Derivative financial assets.....	18,833	418	311	146	203	504	20,415
Derivative financial liabilities.....	10,571	4	—	—	3	—	10,578
Total cash inflows.....	29,404	422	311	146	206	504	30,993

31 December 2017

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				<i>(£m)</i>			
Cash outflows							
Derivative financial assets.....	(17,855)	(26)	(20)	(15)	—	—	(17,916)
Derivative financial liabilities.....	(11,014)	(149)	(70)	(64)	(44)	(47)	(11,388)
Total cash outflows	<u>(28,869)</u>	<u>(175)</u>	<u>(90)</u>	<u>(79)</u>	<u>(44)</u>	<u>(47)</u>	<u>(29,304)</u>
Net derivative financial instruments cash flows.....	<u>535</u>	<u>247</u>	<u>221</u>	<u>67</u>	<u>162</u>	<u>457</u>	<u>1,689</u>

31 December 2016

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				<i>(£m)</i>			
Cash inflows							
Derivative financial assets.....	22,742	446	355	171	221	743	24,678
Derivative financial liabilities.....	13,169	11	—	—	1	—	13,181
Total cash inflows	<u>35,911</u>	<u>457</u>	<u>355</u>	<u>171</u>	<u>222</u>	<u>743</u>	<u>37,859</u>
Cash outflows							
Derivative financial assets.....	(21,613)	(2)	(4)	(16)	(11)	—	(21,646)
Derivative financial liabilities.....	(13,916)	(43)	(23)	(14)	(32)	(146)	(14,174)
Total cash outflows	<u>(35,529)</u>	<u>(45)</u>	<u>(27)</u>	<u>(30)</u>	<u>(43)</u>	<u>(146)</u>	<u>(35,820)</u>
Net derivative financial instruments cash flows.....	<u>382</u>	<u>412</u>	<u>328</u>	<u>141</u>	<u>179</u>	<u>597</u>	<u>2,039</u>

31 December 2015

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
	(£m)						
Cash inflows							
Derivative financial assets.....	9,215	453	469	86	96	503	10,822
Derivative financial liabilities.....	19,663	10	3	—	—	2	19,679
Total cash inflows	28,878	463	472	86	96	505	30,501
Cash outflows							
Derivative financial assets.....	(8,761)	(3)	(15)	(32)	(490)	—	(9,302)
Derivative financial liabilities.....	(20,341)	(106)	(44)	(24)	(33)	(494)	(21,043)
Total cash outflows	(29,102)	(109)	(59)	(56)	(523)	(494)	(30,345)
Net derivative financial instruments cash flows.....	(224)	354	413	30	(427)	11	156

Cash inflows and outflows are presented on a net basis where the SL Insurance Business is required to settle this net.

18 Receivables and other financial assets

	Note	2017	2016	2015
		(£m)		
Amounts receivable on direct insurance business		71	82	83
Amounts receivable on reinsurance contracts.....		2	—	1
Outstanding sales of investment securities ..		115	181	50
Cancellation of units awaiting settlement		36	85	100
Accrued income.....		127	138	134
Due from related parties		36	56	100
Property related receivables.....		132	134	93
Collateral pledged.....		15	23	435
Other.....		82	158	159
Receivables and other financial assets	15	616	857	1,155

The carrying amounts disclosed above reasonably approximate the fair values as at the year end. The amount of receivables and other financial assets expected to be recovered after more than 12 months is £69m (2016: £68m; 2015: £57m).

19 Other assets

	Note	2017	2016	2015
			(£m)	
Current tax recoverable.....	14	165	158	158
Prepayments		18	20	19
Other		97	47	52
Total other assets		<u>280</u>	<u>225</u>	<u>229</u>

The amount of other assets expected to be recovered after more than 12 months is £nil (2016: £nil; 2015: £15m).

20 Assets and liabilities held for sale

The assets held for sale at 31 December 2017 related to properties for which contracts had been exchanged during 2017 but the sales had not completed.

	2017	2016	2015
		(£m)	
Assets held for sale			
Property	156	236	87
Total assets held for sale	<u>156</u>	<u>236</u>	<u>87</u>

Property held for sale consists of £144m investment property (2016: £228m; 2015: £nil) and £12m owner occupied property (2016: £8; 2015: £87m).

There are no financial liabilities held for sale at 31 December 2017 (2016 and 2015: nil).

21 Cash and cash equivalents

	Note	2017	2016	2015
			(£m)	
Cash at bank and in hand		643	495	585
Money at call, term deposits and debt investments with less than three months to maturity from acquisition		8,034	6,804	8,499
Total cash and cash equivalents	15	<u>8,677</u>	<u>7,299</u>	<u>9,084</u>

	Note	2017	2016	2015
			(£m)	
Cash and cash equivalents		8,677	7,299	9,084
Bank overdrafts.....	30	(8)	(28)	(49)
Total cash and cash equivalents for statement of cash flows.....		8,669	7,271	9,035

Cash in hand is non-interest bearing. All other cash and cash equivalents are subject to variable interest rates.

22 Net Parent Investment

As the SL Insurance Business is not a separate legal group and has not previously prepared standalone financial statements, it is not meaningful to disclose share capital or an analysis of reserves. The net assets of the SL Insurance Business are represented by the cumulative investment of the SL Group in the SL Insurance Business and disclosed as Net Parent Investment. Subordinated notes issued by the SL Insurance Business and held by the SL Group are disclosed separately (see Note 23).

In 2017, 13,000,000 (2016: 34,603,200; 2015: 31,800,000) £0.01 ordinary shares of SLAL were issued at a price of £1 each. This resulting proceeds of £13m (2016: £34m; 2015: £32m) were recorded within Net parent Investment.

23 Non-controlling interest - Subordinated notes

The carrying value of the 6.75% £500,000,000 subordinated notes included in non-controlling Interests at the year-end is as follows:

	2017	2016	2015
		(£m)	
Principal.....	486	486	486
Accrued interest.....	16	16	16
Total.....	502	502	502

The subordinated guaranteed bonds, issued to Standard Life plc, are perpetual securities and as such have no fixed redemption date. However, the bonds are redeemable at par at the option of Standard Life Assurance Limited on 12 July 2027 and on every fifth anniversary thereafter. If the bonds are not redeemed on 12 July 2027, the interest rate payable will be reset to 2.85% over the gross redemption yield on the appropriate 5 year benchmark gilt on the reset date. SLAL can elect to defer the payment of the interest on the bonds indefinitely. Interest will accrue on any deferral at the then current rate of interest on the bonds.

In accordance with the requirements of IAS 32 *Financial Instruments: Presentation*, the subordinated guaranteed bonds are classified as non-shareholders' equity. Interest and accrued interest on any deferral are treated as profit attributable to non-shareholders and amounted to £34m (2016: £34m; 2015: £34m).

24 Non-controlling interest - Other

Included in non-controlling interests – other ordinary shares of £297m (2016: £302m; 2015: £290m), are non-controlling interests of Standard Life Private Equity Trust plc (SLPET) of £278m (2016: £260m; 2015: £217m) which is considered material to the SL Insurance Business. Non-controlling interests own 46% (2016: 46%; 2015: 47%) of the voting rights of SLPET. The profit allocated to non-controlling interest of SLPET for the year ended 31 December 2017 is £24m (2016: £49m; 2015: £35m). Dividends paid to non-controlling interests of SLPET during the year ended 31 December 2017 were £7m (2016: £4m; 2015: £5m).

Summarised financial information for SLPET prior to intercompany eliminations is provided in the following table. The summarised financial information is for the years ended 30 September 2017, 2016 and 2015 which is SLPET's financial reporting date and is considered indicative of the interest that non-controlling interests of SLPET have in SL Insurance Business activities and cash flows. The financial statements of SLPET for the years ended 30 September 2017, 2016 and 2015 have been adjusted for market movements and any other significant events or transactions for the three months to 31 December for the purposes of combining in to the SL Insurance Business combined financial statements.

	SLPET 30 September		
	2017	2016	2015
		<i>(£m)</i>	
Statement of financial position:			
Total assets	600	540	439
Total liabilities.....	1	7	-
Income statement:			
Revenue.....	89	119	53
Profit after tax	81	107	47
Total comprehensive income.....	81	107	47
Cash flows:			
Cash flows from operating activities.....	2	5	8
Cash flows from investing activities	1	73	22
Cash flows from financing activities.....	(15)	(13)	(20)
Net increase in cash equivalents.....	(12)	65	10

There are no protective rights of non-controlling interests which significantly restrict SL Insurance business ability to access or use the assets and settle the liabilities of the SL Insurance Business.

25 Insurance contracts, investment contracts and reinsurance contracts

	Note	2017	2016	2015
			<i>(£m)</i>	
Non-participating contract liabilities				
Non-participating insurance contracts	25(a)	22,747	22,919	20,828

	Note	2017	2016	2015
			(£m)	
Non-participating investment contracts	25(b)	104,383	101,997	92,824
		<u>127,130</u>	<u>124,916</u>	<u>113,651</u>
Participating contract liabilities				
Participating insurance contracts	25(a)	14,660	15,151	14,283
Participating investment contracts	25(a)	15,314	15,537	14,716
Unallocated divisible surplus.....	25(d)	603	580	661
		<u>30,577</u>	<u>31,268</u>	<u>29,660</u>

(a) The movement during the year in insurance contract liabilities, participating investment contract liabilities and reinsurance assets is as follows:

	Participating insurance contract liabilities	Non participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurers' share of liabilities (reinsurance assets)	Net 2017
				(£m)		
At 1 January 2017	15,151	22,919	15,537	53,607	(5,388)	48,219
Expected change	(896)	(903)	(1,033)	(2,832)	397	(2,435)
Methodology/modelling changes	(58)	12	51	5	(2)	3
Effect of changes in:						
Economic assumptions	(37)	331	79	373	8	381
Non-economic assumptions.....	(65)	(628)	6	(687)	155	(532)
Effect of:						
Economic experience	125	83	572	780	3	783
Non-economic experience	15	19	39	73	6	79
New business	—	863	33	896	—	896
Total change in contract liabilities..	<u>(916)</u>	<u>(223)</u>	<u>(253)</u>	<u>(1,392)</u>	<u>567</u>	<u>(825)</u>
Foreign exchange adjustment.....	425	51	30	506	(1)	505
At 31 December 2017	<u>14,660</u>	<u>22,747</u>	<u>15,314</u>	<u>52,721</u>	<u>(4,822)</u>	<u>47,899</u>

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques.

Non-economic assumptions net of reinsurance decrease of £138m (2016: £ 29 m; 2015: £ 84 m) primarily relates to changes in mortality assumptions for non-participating insurance contract liabilities.

Economic assumptions reflects changes in fixed income yields, leading to higher valuation interest rates overall for non-participating business, and other market movements.

Following demutualisation, it is necessary to recognise the residual estate in the HWPF as a liability within participating contract liabilities, since this will in due course be distributed to existing HWPF policyholders if it is not otherwise required to meet liabilities chargeable to the HWPF in accordance

with the Scheme of Demutualisation (the Scheme). The movement for the year therefore includes the movement in the residual estate.

	Participating insurance contract liabilities	Non participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurers' share of liabilities (reinsurance assets)	Net 2016
	(£m)					
At 1 January 2016	14,283	20,828	14,716	49,827	(5,504)	44,323
Expected change	(1,334)	(736)	(881)	(2,951)	374	(2,577)
Methodology/modelling changes	(45)	7	3	(35)	47	12
Effect of changes in:						
Economic assumptions	(465)	2,269	195	1,999	(385)	1,614
Non-economic assumptions.....	(23)	(442)	47	(418)	43	(375)
Effect of:						
Economic experience	1,193	41	1,425	2,659	41	2,700
Non-economic experience	88	3	(106)	(15)	6	(9)
New business	—	791	34	825	—	825
Total change in contract liabilities ..	(586)	1,933	717	2,064	126	2,190
Foreign exchange adjustment.....	1,454	158	104	1,716	(10)	1,706
At 31 December 2016	<u>15,151</u>	<u>22,919</u>	<u>15,537</u>	<u>53,607</u>	<u>(5,388)</u>	<u>48,219</u>

	Participating insurance contract liabilities	Non participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurers' share of liabilities (reinsurance assets)	Net 2015
	(£m)					
At 1 January 2015	15,397	21,517	15,191	52,105	(6,033)	46,072
Expected change	(1,042)	(873)	(902)	(2,817)	388	(2,429)
Methodology/modelling changes	17	26	(22)	21	3	24
Effect of changes in:						
Economic assumptions	105	(376)	(17)	(288)	140	(148)
Non-economic assumptions.....	(226)	(388)	182	(432)	8	(424)
Effect of:						
Economic experience	315	8	152	475	14	489
Non-economic experience	107	29	142	278	10	288
New business	37	932	27	996	—	996
Total change in contract liabilities ..	(687)	(642)	(438)	(1,767)	563	(1,204)
Foreign exchange adjustment.....	(427)	(47)	(37)	(511)	(34)	(545)
At 31 December 2015	<u>14,283</u>	<u>20,828</u>	<u>14,716</u>	<u>49,827</u>	<u>(5,504)</u>	<u>44,323</u>

Non participating insurance contracts - Principal assumptions

For non-participating insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. These assumptions are determined as appropriate estimates at the date of valuation. The

basis is considered prudent in each aspect. In particular, options and guarantees have been provided for on prudent bases.

The principal assumptions for the main UK non-participating insurance contracts are as follows:

Valuation interest rates

The valuation interest rates used are determined in accordance with the Prudential Regulation Authority's Integrated Prudential Sourcebook that existed at 31 December 2015. The process used to determine the valuation interest rates used in the calculation of the liabilities comprises three stages: determining the current yield on the assets held after allowing for risk and tax, hypothecating the assets to various types of policy and determining the discount rates from the hypothecated assets.

For corporate bonds, a deduction is made for the risk of default which varies by the quality of asset and the credit spread at the valuation date. The yield for each category of asset is taken as the average adjusted yield weighted by the market value of each asset in that category except for UK and Ireland annuity business and German non-participating insurance business within the PBF where the internal rate of return of the assets backing the liabilities is used. The valuation interest rates used are:

	2017	2016	2015
	_____	_____	_____
		(%)	
Non-participating			
1. Business held within the PBF Annuities			
Individual/group			
life	1.96	2.06	3.05
pensions.....	1.96	2.06	3.05
linked to RPI	(1.53)	(1.55)	(0.47)
	_____	_____	_____
2. Business held within the HWPF Annuities			
Individual/group			
Non-linked			
life	0.45	0.15	2.30
pensions: reinsured externally	1.50	1.55	2.35
pensions: not reinsured externally	1.15	1.15	2.80
deferred annuities	1.15	1.15	2.80
Linked to RPI			
reinsured externally	(1.50)	(1.85)	(0.60)
not reinsured externally	(2.00)	(2.10)	(0.45)
deferred annuities	(2.00)	(2.10)	(1.00)

Mortality rates

The future mortality assumptions are based on historical experience with an allowance for future mortality improvement in annuities. The SL Insurance Business' own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

Mortality tables used	2017	2016	2015
Annuities			
Individual and group in deferment.....	Males: 62.6% AMC00 Females: 64.2% AFC00	Males: 64.7% AMC00 Females: 65.7% AFC00	Males: 67.0% AMC00 Females: 65.2% AFC00
Individual after vesting (business written after 10 July 2006).....	Males: 95.3% RMC00 Females: 99.3% RFC00	Males: 91.2% RMC00 Females: 99.9% RFC00	Males: 92.6% RMC00 Females: 100.3% RFC00
Individual after vesting (business written prior to 10 July 2006).....	Males: 100.1% RMC00 Females: 105.5% RFC00	Males: 95.7% RMC00 Females: 104.7% RFC00	Males: 97.1% RMC00 Females: 104.0% RFC00
Group after vesting (business written after 10 July 2006).....	Males: 113.0% RMV00 Females: 117.5% WA00	Males: 109.8% RMV00 Females: 118.3% WA00	Males: 112.1% RMV00 Females: 119.9% WA00
Group after vesting (business written prior to 10 July 2006).....	Males: 112.5% RMV00 Females: 120.1% WA00	Males: 109.3% RMV00 Females: 120.1% WA00	Males: 111.6% RMV00 Females: 120.8% WA00

In the valuation of the liabilities in respect of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. For 2017, this is based on the SL Insurance Business' parameterisation of the CMI_2015 model with long-term improvement rates of 2.0% for males and 1.7% for females. The Continuous Mortality Investigation Bureau (CMI) is a body funded by the UK insurance and reinsurance industry that produce industry standard mortality tables and projection bases for mortality improvements. CMI_2015 is a model that was published towards the end of 2015.

At 2016, this was based on the SL Insurance Business' parameterisation of the CMI_2014 model with long-term improvement rates of 1.8% for males and 1.5% for females. CMI_2014 is a model that was published towards the end of 2014.

The SL Insurance Business' parameterisation of the CMI_2015 and CMI_2014 models make the following changes relative to the 'core' model.

Blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model).

Assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

For contingent spouses' benefits an assumption is also made with regard to the proportions married, based on the SL Insurance Business' historic experience.

In addition the SL Insurance Business' parameterisation of the CMI_2015 model makes the following change relative to the 'core' model.

Tapers long-term improvements rates to 1.25% at age 100+ from age 82 (compared with tapering to 0% at age 110 over a 25 year period, in the core CMI model).

Expenses

The assumptions for future policy expense levels are determined from the SL Insurance Business' recent expense analyses. No allowance has been made for potential expense improvement and the costs of projects to improve expense efficiency have been ignored. The assumed future expense levels incorporate an annual inflation rate allowance of 3.65% (2016: 3.79%: 2015: 3.12%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate of interest.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

Withdrawals

For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

- (b) Change in non-participating investment contract liabilities is as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(£m)	
At 1 January	101,996	92,824	88,145
Contributions	9,557	10,773	12,550
Account balances paid on surrender and other terminations in the year.....	(15,778)	(10,724)	(10,552)
Investment return and related benefits	8,873	8,776	3,376
Contract reclassification	(13)	(5)	—
Foreign exchange adjustment	237	826	(245)
Recurring management charges	(489)	(473)	(450)
At 31 December	<u>104,383</u>	<u>101,997</u>	<u>92,824</u>

- (c) Expected settlement and recovery

An indication of the term to contracted maturity/repricing date for insurance and investment contract liabilities is given in Note 37 – Risk management. Reinsurance contracts are generally structured to match liabilities on a class of business basis. This has a mixture of terms. The reinsurance assets are therefore broadly expected to be realised in line with the settlement of liabilities (as per the terms of the particular treaty) within a reinsured class of business.

(d) Movement in unallocated divisible surplus (UDS)

	2017	2016	2015
	<u> </u>	<u> </u>	<u> </u>
		<i>(£m)</i>	
At 1 January	581	661	649
Revaluation of owner occupied property	—	5	4
Part VII transfer	—	—	37
Change in UDS not recognised in the income statement	—	5	41
Change in UDS recognised in the income statement	61	106	(108)
Foreign exchange adjustment	(39)	(192)	79
At 31 December	<u>603</u>	<u>580</u>	<u>661</u>

26 Financial liabilities

	Note	2017	2016	2015
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
			<i>(£m)</i>	
Financial liabilities at FVTPL:				
Classified as held for trading:				
Derivative financial liabilities.....	17	768	950	1,239
Total financial liabilities classified as held for trading		<u>768</u>	<u>950</u>	<u>1,239</u>
Designated upon recognition:				
Non-participating contract liabilities		104,383	101,997	92,824
Total financial liabilities designated upon initial recognition		<u>104,383</u>	<u>101,997</u>	<u>92,824</u>
Total financial liabilities at FVTPL		<u>105,151</u>	<u>102,947</u>	<u>94,063</u>
Financial liabilities measured at amortised cost:				
Non-participating contract liabilities		4	4	4
Deposits received from reinsurers		4,633	5,093	5,134
Subordinated liabilities	27	318	318	317
Other financial liabilities	30	2,538	3,250	2,339
Total financial liabilities recognised at amortised cost		<u>7,493</u>	<u>8,665</u>	<u>7,794</u>
Total financial liabilities		<u>112,644</u>	<u>111,612</u>	<u>101,857</u>

27 Subordinated liabilities

The subordinated liabilities balance is made up of:

	Note	2017	2016	2015
			(£m)	
Subordinated intercompany loans – Mutual Assurance Capital Securities				
6.546% £300,000,000 intercompany loan ...		318	318	317
Total subordinated liabilities	26	318	318	317

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year. The principal amount of the subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £20m (2016: £20m; 2015: £20m) is expected to be settled within 12 months.

The sterling denominated MACS bear interest at a rate of 6.546% per annum payable annually in arrears on 6 January. From and including 6 January 2020 and every fifth anniversary thereafter, these MACS will bear interest annually in arrears based on the aggregate of a margin plus the gross redemption yield over specified gilts.

Amounts due under the MACS are classified as liabilities. This classification is determined by the interaction of these arrangements with a £100 internal subordinated loan note issued by the SL Insurance Business to Standard Life plc on 10 July 2006. There is no fixed redemption date for the internal loan note, but interest payments cannot be deferred and must be paid on the date they become due and payable. Under the terms of the MACS any interest deferred on these instruments becomes immediately due and payable on the date of an interest payment in respect of the internal loan note. The existence of the internal loan note therefore removes the discretionary nature of the interest payments on the MACS, and results in their classification as liabilities. Under IAS 32 Financial Instruments: Presentation, if the SL Insurance Business was to cancel the internal loan note then this would result in the reclassification of the MACS from liabilities to equity instruments at that point.

28 Pension and other post-retirement benefit provisions

SLAL is the sponsoring employer for the defined benefit plans. Details of the defined benefit and defined contribution pension plans operated by the Group which are relevant to the SL Insurance Business in the United Kingdom, Republic of Ireland and Germany are outlined below. As there is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit plans across the participating companies, the SL Insurance Business recognises the total defined benefit cost of the plans adjusted for the contributions made to the plans by other participating companies.

The Trustees of the UK defined benefit plan set the investment strategy to protect the funding ratio of the Trustees' funding position. The funding position is a Trustee measure that reflects the amount of assets required to pay future benefits and it is this position that determines contributions that the SL Insurance Business pays into the plan. Whilst the IAS 19 surplus of the UK scheme has increased significantly in recent years the funding ratio has remained comparatively stable.

For the UK defined benefit plan, SLAL considers that it has an unconditional right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan

trustees can purchase annuities to insure member benefits and can, for the majority of benefits, transfer these annuities to members. The trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

Defined benefit plans

UK plans

These plans are governed by trustee boards, which comprise employer and employee nominated trustees and an independent trustee. The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for benefits already built-up under the plan). The trustees perform regular valuations to check that the plans meet the statutory funding objective.

While the IAS 19 valuation reflects a best estimate of the financial position of the plan, the funding valuation reflects a prudent estimate. There is no material difference in how assets are measured. The funding measure of liabilities ('technical provisions') and the IAS 19 measure are materially different. The key differences are the discount rate and inflation assumptions. While IAS 19 requires that the discount rate reflect corporate bond yields, the funding measure discount rate reflects a prudent estimate of future investment returns – based on the actual investment strategy. The funding valuation adopts a market consistent measure of inflation without any adjustment. The IAS 19 assumption incorporates an adjustment to remove the inflation risk premium believed to exist within market prices.

The trustees set the plan investment strategy to protect the ratio of plan assets to the trustees' measure of technical provisions. This investment strategy does not aim to protect the IAS 19 surplus or the ratio of plan assets to the IAS 19 measure of liabilities.

After consulting the relevant employers, the trustees prepare statements of funding and investment principles and set a schedule of contributions. If necessary, this schedule includes a recovery plan that aims to restore the funding level to the level of the technical provisions.

UK Standard Life plan (principal plan)	<p>This is the principal defined benefit plan of the SL Insurance Business. The plan closed to new membership in 2004 and changed from a final salary basis to a revalued career average salary basis in 2008. Accrual ceased in April 2016.</p> <p>The funding of the plan depends on the statutory valuation performed by the trustees, and the relevant employers, with the assistance of the scheme actuary – i.e. not the IAS 19 valuation. The funding valuation was last completed as at 31 December 2016, and measured plan assets and liabilities to be £4.9bn and £4.2bn respectively. This corresponds to a surplus of £0.7bn and funding level of 117%. As there is currently no deficit, no recovery plan is required.</p>
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Other plans

Ireland Standard Life plan	<p>In December 2009 this plan closed to new membership and changed from a final salary basis to a career average revalued earnings (CARE) basis.</p> <p>At the last trustee valuation, effective 1 January 2016, the plan was 70% funded on an ongoing basis.</p>
Other	<p>The SL Insurance Business operates a smaller unfunded defined benefit plan in Germany</p>

Plan regulations

The plans are administered according to local laws and regulations in each country. Responsibility for the governance of the plans rests with the relevant Trustee Boards (or equivalent).

Defined contribution plans

The contributions by the SL Insurance Business to defined contribution plans recognised as an expense are £15m (2016: £16m; 2015: £13m)

Defined benefit plans

(a) Contributions to plans

The following table shows the actual contributions made to the plans by all participating companies:

	2017	2016	2015
	_____	_____	_____
		(<i>£m</i>)	
UK.....	3	2	6
Other	2	2	1

These contributions to the plans were made by Standard Life Employee Services Limited, a related entity within the SLA Group, and recharged to participating companies in the SLA Group, including the SL Insurance Business, in line with the SLA Group expense methodology. Expected contributions to the Ireland defined benefit plan in 2018 are £2m.

(b) Analysis of amounts recognised in the income statement

	Note	2017	2016	2015
	_____	_____	_____	_____
			(<i>£m</i>)	
Current service cost		(1)	(13)	(51)
Interest income		30	33	27
Administration expenses.....		(3)	(3)	(2)
Credit recognised in the income statement	7	26	17	(26)

The amounts in the table above relate to the total defined benefit cost of the plans adjusted for the contributions made to the plans by other participating companies.

During 2015 the terms of a plan amendment to the UK defined benefit plan were agreed which resulted in closure to future accrual from April 2016. This plan amendment did not generate a past service cost. Eligible members of the defined benefit plan received additional contributions of 6% of pensionable salary into the defined contribution plan in April 2015 and April 2016. The contributions were accrued over the vesting period and are included in current service cost and in the cost of defined contribution plans in Note 7 for the years ended 31 December 2016 and 31 December 2015.

(c) **Analysis of amounts recognised in the statement of financial position**

	2017		
	UK	Other	Total
	<i>(£m)</i>		
Present value of funded obligation.....	(2,839)	(115)	(2,954)
Present value of unfunded obligation.....	—	(9)	(9)
Fair value of plan assets	4,530	73	4,603
Effect of limit on plan surpluses.....	(592)	—	(592)
Net asset/(liability) in the statement of financial position	1,099	(51)	1,048
	2016		
	UK	Other	Total
	<i>(£m)</i>		
Present value of funded obligation.....	(3,207)	(117)	(3,324)
Present value of unfunded obligation.....	—	(10)	(10)
Fair value of plan assets	4,927	72	4,999
Effect of limit on plan surpluses.....	(627)	—	(627)
Net asset/(liability) in the statement of financial position	1,093	(55)	1,038
	2015		
	UK	Other	Total
	<i>(£m)</i>		
Present value of funded obligation.....	(2,525)	(85)	(2,610)
Present value of unfunded obligation.....	—	(8)	(8)
Fair value of plan assets	3,936	60	3,996
Effect of limit on plan surpluses.....	(514)	—	(514)
Net asset/(liability) in the statement of financial position	897	(33)	864

The UK plan surplus is considered to be recoverable as a right to a refund exists. The surplus has been reduced to reflect an authorised surplus payments charge that would arise on a refund.

(d) **Movement in the net defined benefit asset**

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(<i>£m</i>)		
At 1 January 2017	(3,334)	4,999	1,665	(627)	1,038
Current service cost	(3)	—	(3)	—	(3)
Administrative expenses	(3)	—	(3)	—	(3)
Interest (expense)/income	(81)	127	46	(16)	30
Total (expense)/income recognised in the income statement	(87)	127	40	(16)	24
Remeasurements:					
Return on plan assets, excluding amounts included in interest income ..	—	60	60	—	60
Loss from change in demographic assumptions	(89)	—	(89)	—	(89)
Loss from change in financial assumptions	(46)	—	(46)	—	(46)
Experience gains	9	—	9	—	9
Change in effect of limit on plan surpluses	—	—	—	51	51
Remeasurements (losses)/gains recognised in other comprehensive income	(126)	60	(66)	51	(15)
Exchange differences	(6)	2	(4)	—	(4)
Employer contributions	—	5	5	—	5
Benefit payments	590	(590)	—	—	—
At 31 December 2017	(2,963)	4,603	1,640	(592)	1,048

The following table shows the comparatives for the year ended 31 December 2016:

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(<i>£m</i>)		
At 1 January 2016	(2,618)	3,996	1,378	(514)	864
Current service cost	(16)	—	(16)	—	(16)
Administrative expenses	(3)	—	(3)	—	(3)
Interest (expense)/income	(93)	144	51	(18)	33
Total (expense)/income recognised in the income statement	(112)	144	32	(18)	14

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(<i>£m</i>)		
Remeasurements:					
Return on plan assets, excluding amounts included in interest income..	—	1,036	1,036	—	1,036
Loss from change in financial assumptions.....	(812)	—	(812)	—	(812)
Experience gains	33	—	33	—	33
Change in effect of limit on plan surpluses	—	—	—	(95)	(95)
Remeasurements (losses)/gains recognised in other comprehensive income	(779)	1,036	257	(95)	162
Exchange differences	(15)	9	(6)	—	(6)
Employer contributions.....	—	4	4	—	4
Benefit payments	190	(190)	—	—	—
At 31 December 2016	(3,334)	4,999	1,665	(627)	1,038

The following table shows the comparatives for the year ended 31 December 2015:

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(<i>£m</i>)		
At 1 January 2015	(2,922)	4,052	1,130	(414)	716
Current service cost	(53)	—	(53)	—	(53)
Administrative expenses	(2)	—	(2)	—	(2)
Interest (expense)/income	(101)	128	27	—	27
Total (expense)/income recognised in the income statement	(156)	128	(28)	—	(28)
Remeasurements:					
Return on plan assets, excluding amounts included in interest income..	—	(73)	(73)	—	(73)
Loss from change in financial assumptions.....	226	—	226	—	226
Experience gains	115	—	115	—	115
Change in effect of limit on plan surpluses	—	—	—	(100)	(100)
Remeasurements (losses)/gains recognised in other comprehensive income	341	(73)	268	(100)	168

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(£m)		
Exchange differences	4	(3)	1	—	1
Employer contributions.....	—	7	7	—	7
Benefit payments	115	(115)	—	—	—
At 31 December 2015	(2,618)	3,996	1,378	(514)	864

(e) **Defined benefit plan assets**

Investment strategy is directed by the relevant Trustee Boards, who pursue different strategies according to the characteristics and maturity profile of each plan. Assets and liabilities are managed holistically to create a portfolio with the dual objectives of return generation and liability management. This is achieved through a diversified multi-asset absolute return strategy seeking consistent positive returns, and hedging techniques which protect liabilities against movements arising from changes in interest rates and inflation expectations. Derivative financial instruments support both of these objectives and may lead to increased or decreased exposures to the physical asset categories disclosed below.

To provide more information on the approach used to determine and measure the fair value of the plan assets, the fair value hierarchy has been used as defined in Note 36 – Fair value of assets and liabilities. Those assets which cannot be classified as Level 1 have been presented together as Level 2 or 3.

The distribution of the fair value of the assets of the funded plans of the SL Insurance Business are:

	UK			Other			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(£m)								
Assets measured at fair value based on Level 1 inputs									
Derivatives	33	16	7	—	—	—	33	16	7
Equity securities and pooled investment vehicles.....	837	982	850	57	54	48	894	1,036	898
Debt securities	2,841	3,357	2,029	—	—	—	2,841	3,357	2,029
Total assets measured at fair value based on Level 1 inputs.....	3,711	4,355	2,886	57	54	48	3,768	4,409	2,934
Assets measured at fair value based on Level 2 or 3 inputs									
Derivatives	334	324	(9)	—	—	(3)	334	324	(12)
Equity securities and pooled investment vehicles.....	297	163	185	—	—	—	297	163	185
Debt securities	76	190	589	—	—	—	76	190	589

	UK			Other			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(£m)								
Qualifying insurance policies	5	5	4	—	—	—	5	5	4
Total assets measured at fair value based on Level 2 or 3 inputs.....	712	682	769	—	—	(3)	712	682	766
Cash and cash equivalents.....	446	186	281	16	18	15	462	204	296
Liability in respect of collateral held	(339)	(292)	—	—	—	—	(339)	(292)	—
Other	—	(4)	—	—	—	—	—	(4)	—
	107	(110)	281	16	18	15	123	(92)	296
Total	4,530	4,927	3,936	73	72	60	4,603	4,999	3,996

Further information on risks is provided in section (g) of this note. The £2,917m (2016: £3,547m; 2015: £2,618m) of debt securities includes £2,841m (2016: £3,357m; 2015: £2,068m) government bonds (including conventional and index-linked). Of the remaining £76m (2016: £190m; 2015: £550m) debt securities, £60m (2016: £169m; 2015: £532m) are investment grade corporate bonds or certificates of deposit.

Defined benefit plans also use pooled investment funds to access a variety of asset classes in an efficient way. Of the interests in pooled investment funds of £994m (2016: £924m; 2015: £564m), £472m (2016: £372m; 2015: £105m) relates to debt funds, nil (2016: £93m; 2015: £411m) relates to equity funds, £339m (2016: £286m; 2015: nil) relates to cash funds, £121m (2016: £116m; 2015: £48m) relates to absolute return funds and £62m (2016: £57m) relates to property funds.

(f) Principal assumptions

Determination of the valuation of plan liabilities is a key estimate as a result of the assumptions made relating to both economic and non-economic factors.

The principal economic assumptions for the UK plan which are based in part on current market conditions are shown below:

	2017	2016	2015
	(%)		
Discount rate	2.60	2.70	3.70
Rates of inflation:			
Consumer Price Index (CPI)	2.20	2.25	2.15
Retail Price Index (RPI)	3.20	3.25	3.15

The changes in economic assumptions over the period reflect small changes in both corporate bond prices and market implied inflation.

The most significant non-economic assumption is post-retirement longevity which is inherently uncertain. The assumptions (along with sample complete expectations of life) are illustrated below:

2017	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
				NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2013 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	30	32	31	34

2016	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
				NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	30	32	32	34

2015	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
				NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before	60	30	32	32	34

2015	Table	Improvements	Normal Retirement Age (NRA)			
			Expectation of life from NRA			
			Male, age today		Female, age today	
			NRA	40	NRA	40

declining toward an ultimate long-term rate of 1.375%.

(g) Risk

(i) Risks and mitigating actions

The statement of financial position of the SL Insurance Business is exposed to movements in the net defined benefit plans' net asset. In particular, the statement of financial position could be materially sensitive to reasonably likely movements in the principal assumptions for the UK plan. By offering post retirement defined benefit pension plans the SL Insurance Business is exposed to a number of risks. An explanation of the key risks and mitigating actions in place for the UK plan is given below

Asset volatility Investment strategy risks include underperformance of the absolute return strategy and underperformance of the liability hedging strategy. As the trustees set investment strategy to protect their own view of plan strength (not the IAS 19 position), changes in the IAS 19 liabilities (e.g. Due to movements in corporate bond prices) may not always result in a similar movement in plan assets. Failure of the asset strategy to keep pace with changes in plan liabilities would expose the plan to the risk of a deficit developing, which could increase funding requirements for the SL Insurance Business.

Yields/discount rate Falls in yields would in isolation be expected to increase the defined benefit plan liabilities.
The UK plan uses both bonds and derivatives to hedge out yield risks on the plan's funding basis, rather than the IAS19 basis, which is expected to minimise the plan's need to rely on support from the SL Insurance Business.

Inflation Rises in inflation expectations would in isolation be expected to increase the defined benefit plan liabilities.
The UK plan uses both bonds and derivatives to hedge out inflation risks on the plan's funding basis, rather than the IAS19 basis, which is expected to minimise the plan's need to rely on support from the SL Insurance Business.

In the UK plan pensions in payment are generally linked to CPI, however inflationary risks are hedged using RPI instruments due to lack of availability of CPI linked instruments. Therefore, the plan is exposed to movements in the actual and expected long-term gap between RPI and CPI.

Life expectancy Increases in life expectancy beyond those currently assumed will lead to an increase in plan liabilities.

Regular reviews of longevity assumptions are performed to ensure assumptions remain appropriate.

(ii) Sensitivity to principal assumptions

The sensitivity of the UK defined benefit plan's net assets to the principal assumptions is disclosed below.

		2017		2016	
		(Increase)/ decrease in present value of obligation	Increase/ (decrease) in fair value of plan assets	(Increase)/ decrease in present value of obligation	Increase/ (decrease) in fair value of plan assets
	Change in assumption				
Yield/discount rate	Decrease 1%	(1,018)	1,634	(1,040)	1,768
	Increase 1 %	727	(1,144)	739	(1,226)
Rates of inflation	Decrease 1%	624	(987)	629	(1,089)
	Increase 1 %	(883)	1,395	(912)	1,553
Life expectancy	Decrease 1 year	79	—	101	—
	Increase 1 year	(78)	—	(101)	—

		2015	
		(Increase)/ decrease in present value of obligation	Increase/ (decrease) in fair value of plan assets
	Change in assumption		
Yield/discount rate	Decrease 1%	(729)	1,312
	Increase 1 %	526	(896)
Rates of inflation	Decrease 1%	459	(823)
	Increase 1 %	(635)	1,178
Life expectancy	Decrease 1 year	55	—
	Increase 1 year	(55)	—

(iii) Duration of UK defined benefit obligation

	2017	2016	2015
	<i>(Years)</i>		
Weighted average duration			
Current pensioner	15	15	17
Non-current pensioner	29	29	27

29 Deferred income

The amount of deferred income expected to be settled after more than 12 months is £115m (2016: £145m; 2015: £176m).

	Note	2017	2016	2015
			(£m)	
At 1 January		195	233	271
Additions during the year	4	11	14	24
Amortisation	4	(51)	(59)	(60)
Foreign exchange adjustment		2	7	(2)
At 31 December		<u>157</u>	<u>195</u>	<u>233</u>

30 Other financial liabilities

	Note	2017	2016	2015
			(£m)	
Amounts payable on direct insurance business		317	362	334
Amounts payable on reinsurance contracts..		5	6	7
Due to related parties		73	67	117
Outstanding purchases of investment securities		184	284	179
Accruals and deferred income		64	66	64
Creation of units awaiting settlement		23	26	18
Cash collateral held in respect of derivative assets		1,494	2,007	1,166
Bank overdrafts	21	8	28	49
Property related creditors		173	175	129
Other		197	229	276
Total other financial liabilities	26	<u>2,538</u>	<u>3,250</u>	<u>2,339</u>

Bank overdrafts are subject to variable interest rates. The carrying amount of bank overdrafts disclosed above reasonably approximate the fair values as at the year end. Other borrowings relate to mortgage loans. The amount of other financial liabilities expected to be settled after more than 12 months is £105m (2016: £101m; 2015: £140m).

31 Other liabilities

	Note	2017	2016	2015
			(£m)	
Provisions	32	281	185	8
Group Relief		—	—	1

	Note	2017	2016	2015
		(£m)		
Taxes payable		93	88	67
Total other liabilities		374	273	76

The amount of other liabilities expected to be settled after more than 12 months is £85m (2016: £98m; 2015: £1m)

32 Provisions

	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
		(£m)		
At 1 January 2017	175	—	11	185
Additions in the year	100	—	31	132
Amounts used in year	(27)	—	(5)	(32)
Unused amounts reversed	—	—	(4)	(4)
At 31 December 2017	248	—	33	281

	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
		(£m)		
At 1 January 2016	—	1	7	8
Additions in the year	175	—	8	183
Amounts used in year	—	—	(3)	(3)
Unused amounts reversed	—	(1)	(2)	(3)
At 31 December 2016	175	—	10	185

	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
		(£m)		
At 1 January 2017	—	1	7	8
Additions in the year	—	—	1	1
Amounts used in year	—	—	—	—
Unused amounts reversed	—	—	(1)	(1)
At 31 December 2017	—	1	7	8

The amount of other provisions expected to be settled after more than 12 months is £82m (2016: £98m; 2015: £1m)

Annuity sales practices relating to enhanced annuities

The provision for annuity sales practices includes £229m (2016: £175m; 2015: nil) in relation to enhanced annuities.

On 14 October 2016, the Financial Conduct Authority (FCA) published the findings of its thematic review of non-advised annuity sales practices. The SL Insurance Business has been a participant in that review. The FCA looked at whether firms provided sufficient information to their customers about their potential eligibility for enhanced annuities.

At the request of the FCA, Standard Life are conducting a review of non-advised annuity sales (with a purchase price above a minimum threshold) to customers eligible to receive an enhanced annuity from 1 July 2008 until 31 May 2016. The purpose of this review is to identify whether these customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and, where appropriate, provide redress to customers who have suffered loss as a result of not having received sufficient information. Standard Life has been working with the FCA regarding the process for conducting this past business review.

The SL Insurance Business has provided for an estimate of the redress payable to customers, which may comprise both lump sum payments and enhancements to future annuity payments, the costs of conducting the review and other related expenses.

The SL Insurance Business has in place liability insurance and is seeking for up to £100m of the financial impact of the provision to be mitigated by this insurance. Discussions are ongoing with our insurers and, as a result, no insurance recovery has been recognised as an asset in these financial statements.

The SL Insurance Business expects the majority of the outflows associated with this provision, including outflows relating to establishing any reserves for future annuity payments, to have occurred by mid 2019.

The SL Insurance Business has not provided for any possible FCA-levied financial penalty relating to the review. Disclosure of related contingent liabilities is included in Note 37.

Estimates and assumptions

The key assumptions in relation to the provision for annuity sales practices are:

- The number of customers entitled to redress
- The amount of redress payable per customer
- The costs of conducting the review

The number of customers entitled to redress has been estimated based on:

- The number of customers in the review population
- The estimated percentage of these customers eligible for an enhanced annuity
- The estimated percentage of these eligible customers that did not receive sufficient information from Standard Life about enhanced annuities

The FCA thematic review noted that between 39% and 48% of customers who bought a standard annuity may potentially have been eligible for an enhanced annuity, and the provision assumes 43.5% of customers were eligible for an enhanced annuity.

The assumption of the percentage of eligible customers that did not receive sufficient information from Standard Life about enhanced annuities and suffered loss as a result is based on a sample of Standard Life customers reviewed as part of the FCA thematic review.

The FCA thematic review noted, for the industry as a whole, a plausible range of lost income for customers who were entitled to enhanced annuities but purchased standard annuities to be between £120 and £240 per annum for an average annuity purchase price of £25,000.

The lost income for customers who were entitled to enhanced annuities, for an average purchase price of £25,000, is assumed to be £300 per annum. This assumption is based on sample testing using the redress calculator provided by the FCA in early 2018. This assumption is higher than the assumption of £180 per annum used at end 2016, which was based on the FCA thematic review and was prior to receiving the FCA redress calculator. This assumption change is the main reason for the increase in the provision compared to 2016.

Assumptions relating to future annuity payments are consistent with other annuity reserving assumptions.

The costs of conducting the review relate to administrative expenses per case and wider project costs. The costs are based on our project planning.

At this stage there is significant uncertainty relating to the amount of redress payable and the expenses of the review. Sensitivities are provided in the table below.

Assumption	Change in assumption	Consequential change in provision
Percentage of customers eligible for an enhanced annuity	Percentage changed by +/-4.5 (e.g. 43.5% increased to 48%)	+/- £17m
Percentage of eligible customers that did not receive sufficient information from Standard Life about enhanced annuities	Percentage changed by +/-5	+/-£12m
Lost income per annum for an average annuity purchase of £25,000	+/- £60	+/-£37m
Costs per case of conducting the review	+/- 20% of the cost per case	+/-£6m

33 Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

(a) Change in operating assets and liabilities

	2017	2016	2015
	<i>(£m)</i>		
Change in operating assets:			
Investment property	(1,721)	1,793	(353)
Assets held for sale	84	(149)	(77)
Pension and other post-retirement benefit assets ..	(25)	(12)	20
Equity securities and interests in pooled investment funds	(4,914)	(12,685)	(2,501)

	2017	2016	2015
		(<i>£m</i>)	
Debt securities.....	5,522	638	(1,508)
Derivative net (liabilities)/assets.....	309	(1,365)	1,123
Reinsurance assets	566	116	529
Receivables and other financial assets and other assets	193	318	(140)
Deferred acquisition costs.....	(46)	(49)	(56)
Loans.....	96	198	(221)
	<u>64</u>	<u>(11,197)</u>	<u>(3,184)</u>
Change in operating liabilities:			
Other financial liabilities and other liabilities	(591)	1,129	(865)
Deposits received from reinsurers.....	(460)	(41)	(508)
Deferred income.....	(38)	(38)	(38)
Third party interest in consolidated funds.....	1,453	(2,177)	479
Non-participating insurance contract liabilities	(223)	1,933	(642)
Non-participating investment contract liabilities ..	2,153	8,349	4,920
Participating contract liabilities	(1,206)	(55)	(1,004)
	<u>1,088</u>	<u>9,107</u>	<u>2,342</u>
Net decrease in operating assets and liabilities.	<u><u>1,152</u></u>	<u><u>(2,097)</u></u>	<u><u>(842)</u></u>

* Investments in these investment vehicles have been classified as operating activities due to the nature of the underlying transactions.

(b) Movement in subordinated liabilities and other borrowings arising from financing activities

	Subordinated liabilities		
	2017	2016	2015
		(<i>£m</i>)	
At 31 January	318	318	318
Cashflows from financing activities:			
Interest paid.....	(20)	(20)	(20)
Non –cash movements:			
Interest capitalised.....	20	20	20
At 31 December	<u><u>318</u></u>	<u><u>318</u></u>	<u><u>318</u></u>

34 Risk management

(a) Overview

The SL Insurance Business' approach to effective risk management is predicated on strong risk awareness and risk accountability. This approach aims to deliver long-term value for customers and shareholders and protect their interests. The SL Insurance Business ensures that:

- Well informed risk-reward decisions are taken in pursuit of the business plan objectives
- Capital is delivered to areas where most value can be created from the risks taken

The SL Insurance Business' risk framework operates through a well-embedded risk culture, effective risk control processes, robust risk governance, sound financial management and active monitoring of risks. The SL Insurance Business adopts the Enterprise Risk Management (ERM) framework used by the SL Group in 2017. The ERM framework enables a risk-based approach to managing the business and integrates concepts of strategic planning, operational management and internal control. The ERM framework includes the methods and processes used to manage risks, and identify and seize commercial opportunities related to the achievement of our objectives, protecting and enhancing value. All of the ERM components are interconnected and work together to provide a holistic framework ensuring the SL Group is well placed to anticipate future areas of risk and prepare appropriately

The SL Insurance Business has established a Risk and Capital Committee in to provide oversight and challenge of, and advice to, the Board and, where appropriate, the Board of any Relevant Group Company on:

- the SL Group's current risk strategy, material risk exposures and future risk strategy (as the same apply to SL Insurance Business) and their impact on levels and allocation of capital and dividend paying capacity;
- the structure and implementation of the ERM framework in the context of the SL Insurance Business and its suitability to react to forward-looking issues and the changing nature of risks;
- changes to the risk appetite framework and quantitative risk limits;
- the risk aspects of major investments, major product developments and other corporate transactions undertaken; and
- material risk and capital matters affecting the With Profits Fund.

The Committee meets at least four times a year at appropriate times and otherwise, as required. All members of the Committee shall be non-executive directors who are determined by the Board to be independent

For the purposes of managing risks to the SL Insurance Business' financial assets and financial liabilities, the SL Insurance Business considers the following categories

Risk	Definition
Market	The risk that arises from the SL Insurance Business' exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.

Credit	The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner.
Demographic	The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic experience differing from that expected. This class of risk includes risks that meet the definition of insurance risk under IFRS 4 Insurance Contracts and other financial risks.
Expense	The risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the SL Insurance Business or an increase in expense inflation, either specific to the SL Insurance Business or relating to economic conditions. This risk will be present on contracts where the SL Insurance Business cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.
Liquidity	The risk that the SL Insurance Business is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.
Operational	The risk of adverse consequences for the SL Insurance Business' business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below.
Conduct	The risk that through our behaviours, strategies, decisions and actions the firm delivers unfair outcomes to our customer/client and/or poor market conduct.
Regulatory & Legal	The risk that arises from violation, or non-conformance with laws rules, regulations, prescribed practices or ethical standards which may result in fines, payments of damages, the voiding of contracts and damaged reputation.
Strategic	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.

The main sources of these risks for the SL Insurance Business and an explanation of actions taken to manage the exposure to each risk during the year are outlined in the remainder of this note.

The assets and liabilities on the SL Insurance Business' statement of financial position can be split into three categories (risk segments) which give the shareholder different exposures to the risks listed above. These categories are:

Shareholder business

Shareholder business refers to the assets and liabilities to which the shareholder is directly exposed. For the purposes of this it incorporates the activities of the SL Insurance Business excluding participating funds. It incorporates the Shareholder Fund (SHF) and Proprietary Business Fund (PBF) excluding unit linked funds.

Participating business

Participating business refers to the assets and liabilities of the participating funds of the SL Insurance Business.

It incorporates the following funds: Heritage With Profits Fund (HWPF), UK Smoothed Managed With Profits Fund (UKSMWPF), German With Profits Fund (GWPF) and German Smoothed Managed With Profits Fund (GSMWPF). It also includes the liabilities for insurance features and financial guarantees contained within contracts held in the HWPF that invest in unit linked funds.

It does not include the liabilities for insurance features contained in contracts invested in the GWPF or GSMWPF. Such liabilities are included in shareholder business.

Unit linked funds

Unit linked funds refers to the assets and liabilities of the SL Insurance Business' unit linked funds.

It does not include the cash flows (such as asset management charges or investment expenses) arising from the unit linked fund contract or the liabilities for insurance features or financial guarantees contained within the unit linked fund contract. Such cash flows and liabilities are included in shareholder business or participating business.

Further explanation of the fund structures is given in Note 1.2.

The table below sets out how the shareholder is exposed to the market, credit, demographic and expense risk and liquidity risk at the reporting date arising from the three risk segments of assets and liabilities:

Risk	Shareholder business	Participating business	Unit linked funds
Market	The shareholder is directly exposed to the impact of movements in equity and property prices, interest rates and foreign exchange rates on the value of assets held by the shareholder business and the associated movements in liabilities.	The shareholder is exposed to the market risk that the assets of the with profits funds are not sufficient to meet their obligations (burnthrough from the with profits funds). If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are largely managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure arises from the changes in the value of future profits earned on unit linked funds due to market movements.
Credit	The shareholder is directly exposed to credit risk from holding cash, debt securities, loans, derivative financial instruments and reinsurance assets and the associated movement in the value of liabilities.	The shareholder is exposed to the credit risk on the assets which could cause the with profits funds to not have sufficient resources to meet its obligations (burnthrough from the with profits funds). If this situation occurred the shareholder would be	Assets are largely managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure is limited to changes in the value of future profits earned on unit linked

Risk	Shareholder business	Participating business	Unit linked funds
Demographic and expense	The shareholder is exposed to longevity and mortality risk on annuity contracts and other contracts written containing insurance features that are invested in unit linked funds or in the GWPF. The shareholder is also exposed to expenses and persistency being different from expectation on these contracts.	exposed to the full shortfall in the funds. The shareholder receives recourse cash flows and certain other defined payments in accordance with the Scheme and other relevant agreements. The recourse cash flows are based on several different components of which some are sensitive to demographic and expense risk.	funds due to market movements. The shareholder is exposed to demographic and expense risk arising on components of unit linked fund contracts, but it is not the assets or liabilities of the fund which gives rise to this exposure.
Liquidity	The shareholder is directly exposed to the liquidity risk from the shareholder business if it is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.	If a with profits fund cannot meet its obligations the shareholder will be exposed to the shortfall in the fund and will be required to meet the policyholder claims and benefits as they fall due.	Unit linked funds are normally expected to meet their obligations through liquidating the underlying assets in which they are invested. If a unit linked fund cannot meet its obligations in this way, the shareholder may be required to meet the obligations to the policyholder.

The shareholder is exposed to operational, conduct, regulatory and legal, and strategic risk arising across the four risk segments and any losses incurred are typically borne by the shareholder.

(b) Market risk

As described in the table in section (a), the shareholder is exposed to market risk from shareholder business and participating business and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder and participating business.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not exposed to market risks from these assets. The shareholder's exposure to market risk on these assets is limited to variations in the value of future fee based revenue earned on the contracts as fees are based on a percentage of the fund value. The sensitivity to market risk analysis includes the impact on those statement of financial position items which are affected by changes in future fee based revenue due to the market stresses changing the value of assets held by the unit linked funds.

The SL Insurance Business manages market risks through the use of a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits

- Clearly defined investment benchmarks for policyholder and equity holder funds
- Stochastic and deterministic asset/liability modelling
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio
- Setting risk limits for main market risks and managing exposures against these appetites

The specific controls and techniques used to manage the market risks in the shareholder business and participating business are discussed below:

Shareholder business

Assets in the shareholder business are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise in the business. A combination of limits by name of issuer, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

Participating business

The assets of the HWPF are principally managed to support the liabilities of the HWPF and are appropriately diversified by both asset class and geography.

The key considerations in asset and liability management of the HWPF are:

- The economic liability and how this varies with market conditions
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and the HWPF's Principles and Practices of Financial Management (PPFM)
- The need to ensure that regulatory and capital requirements are met

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

(i) Elements of market risk

The main elements of market risk to which the SL Insurance Business is exposed are equity risk, property risk, interest rate risk and foreign currency risk which are discussed below.

Information on the methods used to determine fair values for each major category of financial instrument and investment property measured at fair value is presented in Note 39 – Fair value of assets and liabilities and Note 12 – Investment Property.

(i) Equity risk

The SL Insurance Business is exposed to the risk of adverse equity market movements which could result in a financial loss. This applies to daily changes in the market values and returns on the holdings in its equity securities portfolio. The SL Insurance Business' shareholders are exposed to the following sources of equity risk:

- Direct equity shareholdings in shareholder business.

- Burnthrough from the with profits funds where adverse movements in the market values and returns on holdings in the equity portfolios of these funds mean the assets of the with profits funds are not sufficient to meet their obligations.
- The indirect impact from changes in the value of equities held in funds from which management charges or a share of performance are taken.

Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices. For the participating business, exposures are also partially hedged through the use of derivatives.

(ii) Property risk

The SL Insurance Business is exposed to the risk of adverse property market movements which could result in a financial loss. This applies to changes in the value and return on holdings in investment property. This risk arises from:

- Burnthrough from the with profits funds where adverse movements in the market values and returns on investment property in these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of property held in funds from which management charges are taken.

Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by:

- Any one property or group of property
- Geographic area
- Property type
- Development property under construction

The shareholder business is not exposed to significant property price risk.

(iii) Interest rate risk

Interest rate risk is the risk that arises from exposures to changes in the shape and level of yield curves which could result in financial loss due to the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by different amounts.

The main financial assets held by the SL Insurance Business which give rise to interest rate risk are debt securities, loans, cash and cash equivalents. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-unit linked liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments, subordinated liabilities and borrowings.

Shareholder business

In line with the Group's ERM Framework, the SL Insurance Business is required to manage its interest rate exposures in line with the SL Insurance Business' qualitative risk appetite statements and quantitative risk metrics. The SL Insurance Business typically uses a combination of cash flow and duration matching techniques to manage their interest rate risk. Hedging is used to mitigate the risk that burnthrough may arise from the with profits

funds under certain circumstances where adverse interest rate movements could mean the assets of the with profits funds are not sufficient to meet the obligations of the with profits funds.

Participating business

Duration matching is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

The sensitivity of profit after tax to changes in interest rates for both the shareholder business and the participating business is included in the Profit after tax sensitivity to market risk table, shown in section (b)(ii) below.

(iv) Foreign currency risk

The SL Insurance Business' financial assets are generally held in the local currency of its operational geographical locations principally to assist with matching of liabilities. However, foreign currency risk arises where adverse movements in currency exchange rates impact the value of revenues received from, and the value of assets and liabilities held in, currencies other than the local currency. The SL Insurance Business can be exposed to foreign currency risk through the need to meet the expectations of particular groups of policyholders or to improve the SL Insurance Business' risk profile through diversification. The SL Insurance Business manages the risk profile through the use of limits on the amount of foreign currency risk that is permitted.

(ii) Sensitivity analysis – market risk

The SL Insurance Business' profit after tax and equity from continuing operations are sensitive to variations in respect of the SL Insurance Business' market risk exposures and a sensitivity analysis is presented on the following pages. The analysis has been performed by calculating the sensitivity of profit after tax from continuing operations and equity to changes in equity security and property prices and to changes in interest rates as at the reporting date applied to assets and liabilities other than those classified as held for sale.

Changes in equity security and property prices and/or fluctuations in interest rates will affect non-participating unit linked liabilities and the associated assets by the same amount. Therefore, whilst the profit impact on unit linked business has been included in the sensitivity analysis where there is an impact on the value of other statement of financial position, the change in unit linked liabilities and the corresponding asset movement has not been presented.

For the participating business, in particular the HWPF and the GWPF, the risk to shareholders is that the assets of the fund are insufficient to meet the obligations to policyholders. Given the nature of the SL Insurance Business' participating business, changes in equity security and property prices and/or fluctuations in interest rates will generally affect participating liabilities and the associated assets by the same amount. Therefore the change in participating contract liabilities and the corresponding asset movement has not been presented. However under certain economic scenarios guarantees in participating contracts could require the shareholder to provide support to the participating business. This is presented as follows:

For the HWPF, whilst shareholders are only entitled to the recourse cash flows in respect of this business, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. The recourse cash flows have been determined in accordance with the Scheme and consider the extent to which shareholders participate in the investment returns and surpluses of the HWPF. The Scheme, and in particular the Capital Support Mechanism, requires the financial state of the HWPF to be considered before recourse cash flows are transferred to the Shareholder Fund and, under certain circumstances, the payment of recourse cash flows can be withheld to support the financial strength of the HWPF. Therefore, the HWPF has been treated as a whole for the purpose of this sensitivity analysis and only the impact on the recourse cash flows of the sensitivity tests is presented. When assessing the impact of the sensitivity tests on the recourse cash flows, and in particular the risk that the assets of the HWPF may be insufficient to meet the obligations to policyholders, dynamic management actions have been assumed in a manner consistent with the relevant Principles and Practices of Financial Management (PPFM). The sensitivities presented are not sufficiently severe to have restricted recourse cash flows in 2016 and 2015.

For the GWPF, whilst shareholders are entitled to charges from this fund, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. Profit after tax and equity are sensitive to the extent that the receipt of future charges is not taken into account in the measurement of the non-participating contract liabilities in the shareholder risk segment in economic scenarios where the charges are deemed foregone to support the participating liabilities. This sensitivity is included within the non-participating insurance contract liabilities in the table below.

Limitations

The sensitivity of the SL Insurance Business' profit after tax and equity from continuing operations is non-linear and larger or smaller impacts should not be derived from these results.

The sensitivity analysis represents the impact on profit at year end that the changes in market conditions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the sensitivity factors been applied at a date other than the reporting date.

For each sensitivity 'test', the impact of a reasonably possible change in a single sensitivity factor is presented, while the other sensitivity factors remain unchanged. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on unit linked business and other with profits fund business. For example, if the tests had been applied as at 1 January, the profit during the year would have varied due to the different level of funds under management. In illustrating the impact of equity/property risk, the assumption has been made, where relevant, that expectations of corporate earnings and rents remain unchanged and thus yields change accordingly. The sensitivities take into account the likely impact on individual Group companies of local regulatory standards under such a scenario.

The following tables present the impact which would have resulted from the given change in underlying assumptions at the year end.

31 December 2015

	Equity		Property		Interest	
	+10%	-10%	+10%	-10%	+1%	-1%
	(£m)					
Non-par insurance contract liabilities	—	—	—	—	538	(642)
Assets backing non-par liabilities.....	—	—	—	—	(569)	691
Other assets and liabilities.....	—	—	—	—	(17)	18
Total	—	—	—	—	(48)	67

(c) Credit risk

As described in section (a), the shareholder is exposed to credit risk from shareholder business and participating business and as a result the following quantitative credit risk disclosures are provided in respect of the financial assets of these categories.

Quantitative credit risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit linked funds are assets which are held as reinsured external fund links. Under certain circumstances the shareholder may be exposed to losses relating to the default of the reinsured external fund link. These exposures are actively monitored and managed by the SL Insurance Business and the SL Insurance Business considers the circumstances under which losses may arise to be very remote.

(i) Credit exposure

The SL Insurance Business' credit risk exposure mainly arises from its investments in its financial instruments. Concentrations of credit risk are managed by setting maximum exposure limits to types of financial instruments and counterparties. The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum counterparty exposure limits are set with reference to internal credit assessments.
Derivative financial instruments	Maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. Further details on collateral can be found in section (c)(iii).
Debt securities	The SL Insurance Business' policy is to set exposure limits by name of issuer, sector and credit rating.
Loans	Portfolio limits are set to specify the proportion of the value of the total portfolio of mortgage loans that are represented by single or a group of related counterparties,

Financial instrument with credit risk exposure

Control

Reinsurance assets and interests in pooled investment funds

geographic area, employment status or economic sector, risk rating and loan to value percentage.

The SL Insurance Business' policy is to place reinsurance only with highly rated counterparties. The SL Insurance Business must assign internal credit ratings to reinsurance counterparties which must be approved by the Group's Credit Risk Committee. The SL Insurance Business is restricted from assuming concentrations of risk with few individual external reinsurers by specifying certain limits on ceding and the minimum conditions for acceptance and retention of reinsurers.

Other financial instruments

Appropriate limits are set for other financial instruments to which the SL Insurance Business may have exposure at certain times, for example, commission terms paid to intermediaries.

The tables that follow provide an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. For those financial assets with credit ratings assigned by external rating agencies, classification is within the range of AAA to BBB. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB have been classified as below BBB. For those financial assets that do not have credit ratings by external rating agencies but where the SL Insurance Business has assigned internal ratings for use in managing and monitoring credit risk, the assets have been classified in the analysis that follows as 'internally rated'. The total amounts presented represent the SL Insurance Business' maximum exposure to credit risk at the reporting date without taking into account any collateral held. The analysis also provides information on the concentration of credit risk.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the group, then, where appropriate the rating of the parent company has been used.

The analysis presents assets that are neither past due nor impaired, assets that are past due and assets that are impaired.

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

The objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes:

- a default against the terms of the instrument has occurred; and
- the issuer is subject to bankruptcy proceedings or is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process.

Financial assets held by custodians are properly segregated from the proprietary assets of the custodian and are free of the entitlements of creditors of the custodian in accordance with market conventions.

An analysis of financial assets by credit rating is as follows:

As at 31 December 2017

	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
	(£m)						
AAA	9,108	—	1,146	—	—	—	10,254
AA	21,403	20	1,393	9	4,791	—	27,616
A	15,156	—	5,531	1,290	21	—	21,998
BBB	8,390	—	137	587	—	—	9,114
Below BBB	3,158	11	—	—	—	—	3,169
Not rated	242	23	470	1,140	10	609	2,494
Internally rated	2,000	51	—	—	—	—	2,051
Past due	—	—	—	—	—	7	7
Impaired	—	—	—	—	—	—	—
Total	59,457	105	8,677	3,026	4,822	616	76,703

As at 31 December 2016

	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
	(£m)						
AAA	10,430	—	683	—	—	—	11,113
AA	25,183	100	1,997	56	5,356	—	32,692
A	16,009	71	3,987	1,610	12	—	21,689
BBB	8,779	48	100	970	—	—	9,897
Below BBB	2,742	—	—	—	—	—	2,742
Not rated	15	46	532	881	10	840	2,324
Internally rated	1,475	49	—	—	10	—	1,534
Past due	—	—	—	—	—	17	17
Impaired	—	—	—	—	—	—	—
Total	64,633	314	7,299	3,517	5,388	857	82,008

As at 31 December 2015

	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
	(£m)						
AAA	6,651	—	752	—	—	—	7,403
AA	24,912	315	1,559	19	5,459	—	32,264
A	20,520	286	5,705	1,038	27	—	27,576
BBB	8,276	45	757	692	—	—	9,770
Below BBB	2,378	1	—	—	—	—	2,379
Not rated	62	29	311	692	8	1,123	2,225
Internally rated	1,417	115	—	—	10	—	1,542
Past due	—	—	—	—	—	32	32
Impaired	11	—	—	—	—	—	11

As at 31 December 2015

	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
				(£m)			
Total	64,227	791	9,084	2,441	5,504	1,155	83,202

At 31 December 2017, receivables and other financial assets of £7m (2016: £17m; 2015: £32m) were past due by less than three months.

An analysis of debt securities by country is as follows:

As at 31 December 2017

	Government	Banks	Other financial institutions	Other corporate	Other ⁽¹⁾	Total
						(£m)
UK.....	13,817	2,240	3,819	4,776	—	24,652
EU.....	8,528	5,725	719	3,280	—	18,252
US.....	3,297	1,304	638	2,880	—	8,119
Other.....	2,878	2,528	400	1,901	727	8,434
Total	28,520	11,797	5,576	12,837	727	59,457

As at 31 December 2016

	Government	Banks	Other financial institutions	Other corporate	Other ⁽¹⁾	Total
						(£m)
UK.....	16,130	2,444	4,460	5,999	—	29,033
EU.....	8,414	6,814	594	3,220	—	19,042
US.....	4,410	1,589	679	4,014	—	10,692
Other.....	1,190	2,643	277	1,039	717	5,866
Total	30,144	13,490	6,010	14,272	717	64,633

As at 31 December 2015

	Government	Banks	Other financial institutions	Other corporate	Other ⁽¹⁾	Total
						(£m)
UK.....	15,491	3,064	5,120	5,387	—	29,062
EU.....	7,015	11,406	582	2,955	—	21,958
US.....	633	2,036	700	2,835	—	6,204
Other.....	2,091	2,886	268	1,028	730	7,003
Total	25,230	19,392	6,670	12,205	730	64,227

Note:

(1) This balance primarily consists of securities held in supranational.

The Shareholders' exposure to credit risk arising from investments held in the HWPF and other with profits funds is similar in purpose to that disclosed for market risk exposures in Section (b). The financial assets of the HWPF include £4,621m (2016: £5,093m; 2015: £5,134m) of assets (primarily debt securities) deposited back under the terms of an external annuity reinsurance transaction, the transaction having been structured in this manner specifically to mitigate credit risks associated with reinsurer default. Credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

(ii) Offsetting financial assets and liabilities

The SL Insurance Business' over the counter (OTC) derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy. An ISDA master agreement is considered a master netting agreement.

The SL Insurance Business offsets loans to/from its parent where there is an unconditional right of set off and an intention to settle on a net basis. The SL Insurance Business does not offset any other financial assets and liabilities in the statement of financial position, as there are no unconditional rights to set off.

The SL Insurance Business does not hold any other financial instruments which are subject to master netting agreements or similar arrangements. The following table presents the effect of master netting agreements:

Gross amounts of financial instruments as presented in the statement of financial position	Related amounts not offset in the statement of financial position		
	Financial instruments	Financial and cash collateral pledged (received)	Net position
	(£m)		
As at 31 December 2017			
Financial assets.....			
OTC derivatives.....	2,013	(457)	(1,502)
Reverse repurchase agreements ...	900	—	(899)
Total financial assets.....	2,913	(457)	(2,401)
Financial liabilities			
OTC derivatives.....	(601)	457	66
Total financial liabilities.....	(601)	457	66

	Related amounts not offset in the statement of financial position			
	Gross amounts of financial instruments as presented in the statement of financial position	Financial instruments	Financial and cash collateral pledged (received)	Net position
		(£m)		
As at 31 December 2016				
Financial assets				
OTC derivatives.....	2,637	(550)	(1,994)	93
Reverse repurchase agreements ...	800	—	(804)	(4)
Total financial assets.....	3,437	(550)	(2,798)	89
Financial liabilities				
OTC derivatives.....	(736)	550	174	(12)
Total financial liabilities.....	(736)	550	174	(12)

	Related amounts not offset in the statement of financial position			
	Gross amounts of financial instruments as presented in the statement of financial position	Financial instruments	Financial and cash collateral pledged (received)	Net position
		(£m)		
As at 31 December 2015				
Financial assets				
OTC derivatives.....	1,749	(548)	(1,180)	21
Total financial assets.....	1,749	(548)	(1,180)	21
Financial liabilities				
OTC derivatives.....	(1,055)	548	455	(52)
Total financial liabilities.....	(1,055)	548	455	(52)

(iii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of derivative financial instruments is accepted from and provided to certain market counterparties in respect of derivative financial instruments to mitigate counterparty risk in the event of default. The use of collateral in respect of derivative financial instruments is governed by formal bilateral agreements between the parties. The amount of collateral required by either party is calculated daily based on the value of derivative transactions in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Any collateral moved under the terms of these agreements is transferred outright. With regard to either collateral pledged or accepted the SL Insurance Business may request the return of, or be required to return, collateral to the extent it differs from that required under the daily margin calculations. Furthermore alternative collateral such as securities may be provided if acceptable

to both parties. Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close out calculation of net counterparty exposure. At 31 December 2017, the SL Insurance Business had pledged £15m (2016: £23m; 2015: £435m) of cash and £103m (2016: £184m; 2015: £25m) of securities as collateral for derivative financial liabilities. At 31 December 2017, the SL Insurance Business had accepted £1,494m (2016: £2,007m; 2015: £1,166m) of cash and £944m (2016: £8m; 2015: £10m) of securities as collateral. None of the above securities were sold or repledged at the year end.

(iv) Credit spreads

As at 31 December 2017, it is expected that an adverse movement in credit spreads of 50 basis points, with no change to default allowance, would result in a reduction to profit for the year of £17m (2016: £22m reduction; 2015: £23m reduction). A further reduction of £78m (2016: £58m; 2015: £69m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

(v) Credit risk on loans and receivables and financial liabilities designated as FVTPL

(i) Loans and receivables

The SL Insurance Business holds a number of financial instruments, which meet the definition of loans and receivables under IAS 39 *Financial Instruments: Recognition and Measurement* and on initial recognition were designated as FVTPL. These instruments are included in debt securities in the statement of financial position.

The SL Insurance Business' exposure to such financial instruments at 31 December 2017 was £923m (2016: £824m; 2015: £587m). During the year, fair value gains of £2m (2016: £27m gains; 2015: £4m losses) in relation to the participating and shareholder business loans and receivables were recognised in the income statement. The amount of this movement that is attributable to changes in the credit risk of these instruments was losses of £3m (2016: £9m gains; 2015: £2m gains). The loans and receivables relating to unit linked business consist solely of income strips. Due to the long-term nature of these instruments it is not possible to identify the associated credit risk. The shareholder has no exposure to such risk.

As described in (a) above, market risk is defined by the ERM framework as the risk that arises from the SL Insurance Business' exposure to market movements, which could result in the value of income, or value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts. The movement in the fair value of the loans and receivables incorporates both movements arising from credit risk and resulting from changes in market conditions.

(ii) Financial liabilities

The SL Insurance Business has designated unit-linked non-participating investment contract liabilities as FVTPL. As the fair value of the liability is based on the value of the underlying portfolio of assets, the movement, during the year and cumulatively, in the fair value of the unit linked participating investment contract liabilities is only attributable to market risk.

(d) Demographic and expense risk

As described in section (a), the shareholder is directly exposed to demographic and expense risk from shareholder business and participating business and as a result quantitative demographic and expense risk disclosures are provided in respect of these categories.

Demographic and expense risk is managed by analysing experience and using statistical data to make certain assumptions on the risks associated with the policy during the year that it is in force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing demographic and expense risk exposures, the SL Insurance Business considers:

- Historic experience of relevant demographic and expense risks;
- The potential for future experience to differ from that expected or observed historically;
- The financial impact of variance in expectations; and
- Other factors relevant to their specific markets, for instance, obligations to treat customers fairly.

Reinsurance or other risk transfer mechanisms are used to manage risk exposures and are taken into account in the SL Insurance Business' assessment of demographic and expense risk exposures.

(i) Elements of demographic and expense risk

The main elements of demographic and expense risk that give rise to the SL Insurance Business' exposure are discussed below.

Longevity

The SL Insurance Business defines longevity risk as the risk that policyholders live longer than expected which gives rise to losses for the shareholder. This may arise from current experience differing from that expected, or the rate of improvement in mortality being greater than anticipated. This risk is relevant for contracts where payments are made until the death of the policyholder, for example, annuities.

Experience can vary as a result of statistical uncertainty or as a consequence of systemic (and previously unexpected) changes in the life expectancy of the insured portfolio. The profitability of such business will reduce should policyholders live longer than expected and reported profits will be impacted as and when such variances are recognised in liabilities.

Morbidity

The SL Insurance Business defines morbidity risk as the risk that claims dependent on the state of health of a policyholder are incurred at a higher than expected rate or, in the case of income benefits, continue for a longer duration or start earlier than those assumed and could either arise over time or as a result of a single catastrophic event such as a pandemic. This risk will be present on disability income, healthcare and critical illness contracts. Income protection contracts have the risk that claim duration may be longer than anticipated.

Mortality

The SL Insurance Business defines mortality risk as the risk that death claims are at a higher rate than assumed and could either arise over time or as a result of a single catastrophic event such as a pandemic. This risk will exist on any contracts where the payment on death is greater than the reserve held.

Persistency – withdrawals and lapse rates

The SL Insurance Business defines persistency risk as the risk that clients or policyholders redeem their investments or surrender, lapse or pay-up their policies at different rates than assumed resulting in reduced revenue and/or financial losses. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits arising from early retirements, surrenders – either partial or in full – and similar policyholder options.

Variances in persistency will affect shareholder profits to the extent that charges levied against policies are dependent upon the number of policies in force and/or the average size of those policies. This risk is primarily relevant for unit linked and unitised with profits business. Profits may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

Expenses

The SL Insurance Business defines expense risk as the risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the SL Insurance Business or an increase in expense inflation, either SL Insurance Business specific or relating to economic conditions. This risk will be present on contracts where the SL Insurance Business cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.

Shareholder profits are directly exposed to the risk of expenses being higher than otherwise expected. They can be further affected if it is considered necessary or prudent to increase liabilities to reflect increased expectations of future costs of policy administration.

(ii) Sensitivity analysis – demographic and expense risk

Recognition of profits after tax and the measurement of equity are dependent on the methodology and key assumptions used to determine the SL Insurance Business' insurance and investment contract liabilities - as described in Note 2.

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the SL Insurance Business' most significant demographic and expense risk exposures, including exposure to persistency risk. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged.

For the participating business, the tables above illustrate the impact of demographic and expense risk on the recourse cash flows from the HWPF, which have been determined in accordance with the Scheme and take into account the need to consider the impact of risk on the financial position of the HWPF before any recourse cash flows can be transferred to the SHF. The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. Refer to Section (b)(ii).

The shareholder business currently bears longevity risk both on contracts written in the PBF and on contracts written in the HWPF for which longevity risk has been transferred to the PBF.

risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the sensitivity analysis may vary as a consequence of the passage of time or as a consequence of changes in underlying market or financial conditions. The sensitivity analysis in respect of longevity risk has been performed on the relevant annuity business and presents for a +5% longevity stress the impact of a 5% reduction in the underlying mortality rates (and vice versa). It has also been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rates.

(e) Liquidity risk

As described in section (a), the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked funds and as a result the following quantitative liquidity risk disclosures are provided in respect of the financial liabilities of these categories.

For annuity, with profits, and unit linked business, liquidity risk is primarily managed by holding a range of diversified instruments which are assessed against estimated cash flow and funding requirements.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. The SL Insurance Business actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching. For Pension and Savings, the reinsurance treaty between the Group and Canada Life International Re provides for the cash settlement of amounts owed by Canada Life International Re.

For with profits contracts, a portfolio of assets is maintained in the relevant funds appropriate to the nature and term of the expected pattern of payments of liabilities. Within that portfolio, liquidity is provided by substantial holdings of cash and highly liquid assets (principally government bonds). Partial cash flow matching is used to reduce liquidity risk that arises for German with profits contracts.

Where it is necessary to sell less liquid assets within the relevant portfolios, then any incurred losses are generally being passed onto policyholders in accordance with policyholders' reasonable expectations; such losses are managed and mitigated through actively anticipating net disinvestment based on policyholder behaviour and seeking to execute sales of underlying assets in such a way that the cost to policyholders is minimised.

For non-participating unit linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary, deferral terms within the policy conditions applying to the majority of the SL Insurance Business' contracts are invoked. As at 31 December 2017 and 31 December 2016 none of the funds under management were subject to deferral.

The SL Insurance Business undertakes periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to extreme policyholder behaviour).

The SL Insurance Business is required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Group's risk policy framework. Oversight is provided both at a Group level and within the SL Insurance Business. In addition, the SL Insurance Business benefits from membership of a larger Group to the extent that, centrally, the Group:

- Coordinates strategic planning and funding requirements

- Monitors, assesses and oversees the investment of assets within the Group
- Monitors and manages risk, capital requirements, and available capital on a group-wide basis
- Maintains a portfolio (currently undrawn) of committed bank facilities

Each business unit is responsible for the definition and management of its contingency funding plan. Liquidity risk is managed by each business unit in consultation with the Group Treasury function.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the SL Insurance Business expects to be able to manage liquidity risk on an ongoing basis. We recognise there are a number of scenarios that can impact the liquid resources of a business.

(i) Maturity analysis

The following tables present the expected timing of the cash flows payable on the amounts recognised on the statement of financial position for the insurance and investment contract liabilities of the SL Insurance Business as at the reporting date. To align with the risk management approach towards liquidity risk and existing management projections the analysis that follows facilitates consideration of the settlement obligations of both insurance and investment contracts.

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
	(£m)							
31 December 2017								
Non-participating insurance contract liabilities	1,541	5,388	5,445	4,252	3,388	2,733	—	22,747
Non-participating investment contract liabilities	10,564	32,794	26,873	16,175	9,340	8,638	—	104,384
Participating insurance contract liabilities	1,392	3,461	2,861	2,708	2,109	2,127	—	14,658
Participating investment contract liabilities	1,360	5,440	4,356	2,434	1,121	605	—	15,316
Unallocated divisible surplus	—	—	—	—	—	—	603	603
Total	14,857	47,083	39,535	25,569	15,958	14,103	603	157,708

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
	(£m)							
31 December 2016								
Non-participating insurance contract liabilities	1,433	5,207	5,395	4,297	3,406	3,181	—	22,919
Non-participating investment contract liabilities	9,923	31,684	26,695	16,018	9,115	8,562	—	101,997

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
	(£m)							
Participating insurance contract liabilities	1,610	3,604	2,867	2,398	2,376	2,296	—	15,151
Participating investment contract liabilities	600	2,649	3,484	3,411	2,692	2,701	—	15,537
Unallocated divisible surplus	—	—	—	—	—	—	580	580
Total	13,566	43,144	38,441	26,124	17,589	16,740	580	156,184

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
	(£m)							
31 December 2015								
Non-participating insurance contract liabilities	1,410	5,124	5,090	3,858	2,951	2,394	—	20,828
Non-participating investment contract liabilities	9,078	29,423	24,354	14,358	8,084	7,527	—	92,824
Participating insurance contract liabilities	2,044	3,668	2,536	1,939	2,019	2,077	—	14,283
Participating investment contract liabilities	582	2,518	3,229	3,174	2,492	2,721	—	14,716
Unallocated divisible surplus	—	—	—	—	—	—	661	661
Total	13,114	40,733	35,209	23,330	15,546	14,719	661	143,312

The tables below present the undiscounted cash flows payable by remaining contractual maturity at the reporting date and include the non-participating investment contract liabilities. The analysis excludes participating investment contract liabilities. Given that policyholders can usually choose to surrender in part or in full their unit linked contracts at any time, the SL Insurance Business' non-participating investment contract unit linked liabilities presented in the table below have been designated as less than one year. Such surrenders would be matched in practice, if necessary, by sales of underlying assets. The SL Insurance Business can delay settling liabilities to unit linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets. In this analysis, the maturity within one year includes liabilities that are repayable on demand.

As required by IFRS 7 the amounts presented in the table below are the contractual undiscounted cash flows, whereas the SL Insurance Business manages inherent liquidity risk based on expected discounted cash flows.

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
31 December 2017							
Non-participating investment contracts.....	104,384	—	—	—	—	—	104,384
Subordinated liabilities.....	20	51	51	51	51	—	224
Other financial liabilities...	2,318	10	10	10	10	186	2,543
Total	106,722	61	61	61	61	186	107,151
				(£m)			
31 December 2016							
Non-participating investment contracts.....	101,997	—	—	—	—	—	101,997
Subordinated liabilities.....	20	68	48	48	—	—	184
Other financial liabilities...	4,087	44	14	13	13	225	4,398
Total	106,104	112	62	61	13	225	106,577
				(£m)			
31 December 2015							
Non-participating investment contracts.....	92,824	—	—	—	—	—	92,824
Subordinated liabilities.....	20	79	67	60	24	—	250
Other financial liabilities...	2,397	20	22	13	13	111	2,576
Total	95,241	99	89	73	37	111	95,650

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the table along with interest payments on such instruments after 20 years.

Refer to Note 17 for the maturity profile of undiscounted cash flows of derivative financial instruments.

Deposits received from reinsurers' reflect the liability to repay the deposit received from an external reinsurer, in order to limit the SL Insurance Business' counterparty credit exposure, under a reinsurance transaction. The timing and amount of the payment of the cash flows under this liability are defined by the terms of the treaty under which there is no defined contractual maturity date to repay the deposit as at 31 December 2017.

(f) Operational risk

The SL Insurance Business defines operational risk as the risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events.

The policy framework, which includes the Group operational risk policy, is used to support the management of operational risks.

The types of operational risk that the SL Insurance Business is exposed to are identified using the following operational risk categories:

- Data and Cyber
- Change Management
- Third Party
- Process Execution
- Business Continuity
- People
- Fraud and Irregularities
- Model

Activities undertaken to ensure the practical operation of controls over financial risk, that is, market, credit, liquidity and demographic and expense risk, are treated as an operational risk.

Operational risk exposures are controlled using one or a combination of the following: modifying operations to mitigate the exposure to the risk; accepting exposure to the risk; or accepting exposure to the risk and controlling the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented are based on, amongst other considerations:

- the potential cause and impact of the risk;
- the likelihood of the risk being realised in the absence of any controls;
- the ease with which the risk could be insured against;
- the cost of implementing controls to reduce the likelihood of the risk being realised; and
- operational risk appetite.

Risk Control Self Assessment (CSA) is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged by the Risk Function in its role of 'second line of defence'. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of Risk CSA are reported through the risk governance structure.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. The maximum amount of operational risk the SL Insurance Business is willing to retain is defined using both

quantitative limits, e.g. financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

The operational risks faced by the SL Insurance Business and its exposure to these risks forms its operational risk profile. The SL Insurance Business understands and reviews its profile based on a combination of the estimated impact and likelihood of risk events occurring in the future, the results of Risk CSA and a review of risk exposures relative to approved limits.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of the SL Insurance Business are assessed and managed in accordance with established guidelines or standards.

(g) Conduct risk

The SL Insurance Business defines conduct risk as the risk that through our behaviours, strategies, decisions and actions the SL Insurance Business delivers unfair outcomes to our customer/client and/or poor market conduct. Conduct risk can occur across multiple areas and from multiple sources, including the crystallisation of an operational risk.

The SL Insurance Business has a single Conduct and Operational Risk Framework that utilises the tools outlined under operational risk (f) to ensure the appropriate identification and management of conduct risk. Business units adopt the relevant minimum standards contained within the conduct risk policy and are required to manage risk in accordance with this and other policies that have an impact on the overall conduct risk, taking mitigating action as appropriate to operate within appetites.

The following conduct risk policy standards have defined outcomes against which conduct risk is assessed within the SL Insurance Business:

- Culture
- Proposition Design
- Communication and Information
- Advice and Distribution
- Service
- Barriers
- Proposition Performance
- Market Integrity

(h) Regulatory and Legal risk

The SL Insurance Business defines regulatory and legal risk as the risk arising from violation, or non-conformance with laws rules, regulations, prescribed practices or ethical standards which may result in fines, payments of damages, the voiding of contracts and damaged reputation.

Business units must have in place procedures to identify, report and analyse all regulatory compliance breaches to the relevant business unit compliance function. Additionally, business units are required to have procedures in place to identify, assess and monitor the impact of changes to laws, regulations, and rules, prescribed practices and external regulatory events in jurisdictions where they choose to carry on regulated financial services activity.

(i) Strategic risk

The SL Insurance Business defines strategic risk as the risk associated with the robustness of the strategic planning process and the threats to the achievement of the strategy. Strategic risks are considered as part of the Pension and Savings business planning processes.

Strategic risk includes risks associated with political change which have the potential to impact the business through the introduction of new laws or regulations, or indirectly by altering client and customer sentiment. Decisions taken by the UK and Scottish governments, along with those in other locations where we operate, can significantly alter circumstances and change the way we do business.

The ongoing negotiations surrounding the UK's exit from the EU have yet to provide clarity on what the outcome will be for the UK or Europe. These unavoidable uncertainties and our failure to adequately prepare for Brexit could have significant customer, reputational and capital impacts.

The impact (financial and non-financial) and probability of the strategic risks to which the SL Insurance Business is exposed are assessed as part of this process and are reviewed on a regular basis.

(j) Capital

Capital management policies and objectives

Managing capital is the on-going process of determining and maintaining the quantity and quality of capital appropriate for the SL Insurance Business, and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the SL Insurance Business consider our key stakeholders to be the providers of capital (our equity holders, policyholders and holders of our subordinated liabilities) and the Prudential Regulation Authority (PRA).

There are two primary objectives of capital management in the SL Insurance Business. The first objective is to ensure that capital is, and will continue to be, adequate to maintain the required level of safety and stability of the SL Insurance Business and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the SL Insurance Business' regulatory solvency position. The second objective is to create shareholder value by driving profit attributable to shareholders. As at 31 December 2017 SLAL (the main operating company within the SL Insurance Business) had distributable reserves of £2,699m (2016: £2,638m).

The capital requirements of the SL Insurance Business are forecast on a periodic basis, and the requirements are assessed against the forecast available capital resources. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. Capital plans are ultimately subject to approval by the Board.

Regulatory capital framework

From 1 January 2016 the SL Insurance Business has been required to measure and monitor its capital resource under the Solvency II (SII) regulatory regime.

The SL Insurance Business has processes to manage and report its capital positions, and has capital framework policies that specify the buffer capital that the executive management believes is sufficient to hold within the SL Insurance Business.

The SL Insurance Business' capital position under SII is determined by aggregating the assets and liabilities of the SL Insurance Business recognised and measured on a SII basis (being SL Insurance Business own funds) and comparing this to the SL Insurance Business' SII solvency capital requirement (SCR) to determine surplus capital.

Regulatory capital position

The following table sets out a reconciliation from the Solvency II balance sheet to the Solvency II Own Funds for the SL Insurance Business.

31 December 2017		£m
Assets	Audited	161,079
Technical provisions	Unaudited	146,140
– BEL	Audited	145,942
– Risk Margin	Unaudited	1,433
– TMTP	Unaudited	(1,235)
Other liabilities.....	Audited	8,783
Excess of assets over liabilities	Unaudited	6,156
Subordinated debt	Audited	1,023
RFF restriction	Unaudited	(921)
SL Insurance Business Own Funds	Unaudited	6,258

On a SII basis, using the internal model approved by the Prudential Regulation Authority for the insurance companies included within the SL Insurance Business as at 31 December 2017 the SL Insurance Business, had a solvency capital requirement (SCR) of £3,148m (unaudited).

The regulated insurance companies within the SL Insurance Business has not breached any externally imposed capital requirements at any time during the year.

35 Structured entities

The SL Insurance Business' interest in structured entities is comprised of investments in a range of investment vehicles. The principal types of structured entities in which the SL Insurance Business has an interest include:

- Pooled investment funds managed internally and externally, including OEICs, SICAVs, unit trusts and limited partnerships.
- Debt securitisation vehicles which issue asset backed securities.

Where SL Insurance Business has control over such structured entities, those have been consolidated into the historical financial information (see note 40 for the detail on perimeter of the transaction and the respective holdings in equity).

Investments in structured entities

The following table shows the carrying value of the SL Insurance Business' investments in structured entities by line items in the statement of financial position as defined in Note 34 – Risk management.

	Total		
	2017	2016	2015
		(<i>£m</i>)	
Equity securities and interests in pooled investment funds.....	42,085	37,384	27,919
Debt securities.....	3,176	3,431	3,393

Equity securities and interests in pooled investment funds include £7,027m (2016: £7,762m; 2015: £5,595m) of investments in associates measured at FVTPL.

The asset value of investments in associates including the portion of which the SL Insurance Business has no interest is £19,500m (2016: £33,789m; 2015: £26,605m).

The total issuance balance relating to debt securities in which the SL Insurance Business has an investment in is £56,972m (2016: £54,958; 2015: £54,146m).

The SL Insurance Business' maximum exposure to loss in respect of the interests presented above is the carrying value of the SL Insurance Business' investment. As noted in Note 34 – Risk management, the shareholder is not exposed to market or credit risk in respect of investments held in the unit linked funds.

Additional information on how the SL Insurance Business manages its exposure to risk can be found in Note 34 – Risk management.

36 Fair value of assets and liabilities

(a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair values measured using inputs that are not based on observable market data (unobservable inputs).

(b) Financial investments and financial liabilities

An analysis of the SL Insurance Business' financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes 15 and 26 and includes those financial assets and liabilities held at fair value.

(c) Non-financial investments

An analysis of the SL Insurance Business' investment property and owner occupied property within property and equipment in accordance with IAS 40 – *Investment property* and IAS 16 - *Property, plant and equipment* is presented in Notes 12 and 13 respectively and includes those assets held at fair value.

(d) Methods and assumptions used to determine fair value of assets and liabilities

The SL Insurance Business uses the methods applied by Group to determine fair values for each major category of financial instrument measured at fair value. Information on these methods and assumptions is given below.

Investment property and owner occupied property

The fair value of investment property and all owner occupied property is based on valuations provided by external property valuation experts. The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. No adjustment has been made for vacant possession for the Group's owner occupied property.

In the UK and Europe, valuations are completed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards. These are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving properties with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving properties with similar characteristics to the property being valued. In both approaches where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered.

As income capitalisation and market comparison valuations generally include significant unobservable inputs including unobservable adjustments to recent market transactions, these assets are categorised as level 3 within the fair value hierarchy.

Derivative financial assets

The majority of the SL Insurance Business' derivatives are over-the-counter (OTC) derivatives which are measured at fair value using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and OTC derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the SL Insurance Business' risk management policies. At 31 December 2017 and 31 December 2016 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

Investments in associates at FVTPL, Equity securities and interests in pooled investment funds

Investments in associates at FVTPL are classified as and valued in the same manner as the SL Insurance Business' equity securities and interests in pooled investment funds.

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Unlisted equities are valued using an adjusted net asset value. The SL Insurance Business' exposure to unlisted equity securities primarily relates to private equity investments. The majority of the SL Insurance Business' private equity investments are carried out through European fund of funds structures, where the SL Insurance Business receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting financial year. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Debt securities

For debt securities, the SL Insurance Business has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the SL Insurance Business has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

Government, including provincial and municipal, and supranational institution bonds

These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes

Corporate bonds (listed or quoted in an established over-the-counter market including asset backed securities)

These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the SL Insurance Business performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit

These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

Commercial mortgages

These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending on whether the spread is adjusted by an internal underwriting rating.

Income strips

Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the SL Insurance Business, and has signed a long lease (typically 30 – 45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1).

The valuation technique used by the SL Insurance Business to value these instruments is an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. Unlike investment properties which typically are leased on shorter lease terms, the estimated rental value is not a significant unobservable input. This is due to the length of the lease together with the nature of the rent reviews where the annual rental increases over the term of the lease in line with inflation or fixed increases. As the income capitalisation valuations generally include significant unobservable inputs including unobservable adjustment to the yield observed in other income strip transactions, these assets are categorised as level 3 in the fair value hierarchy.

Non-participating investment contract liabilities

The fair value of the non-participating investment contract liabilities is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately classified as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are classified within level 2 of the fair value hierarchy.

(i) Fair value hierarchy for assets measured at fair value in the statement of financial position

The table that follows presents an analysis of the SL Insurance Business' assets measured at fair value by level of the fair value hierarchy for each category as set out in Note 34 – Risk management.

	Level 1			Level 2			Level 3			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(£m)											
Investment property	0	0	0	0	0	0	8,374	6,653	8,437	8,374	6,653	8,437
Owner occupied property..	0	0	0	0	0	0	7	7	31	7	7	31
Derivative financial assets	989	843	692	2,036	2,674	1,749	0	0	0	3,026	3,517	2,441
Equity securities and interests in pooled investment vehicles	95,192	89,938	75,476	0	(258)	0	875	939	894	96,067	90,619	76,370
Debt securities	24,776	28,178	22,961	33,238	35,587	40,481	1,443	867	786	59,457	64,633	64,227

	Level 1			Level 2			Level 3			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(£m)											
Assets held for sale.....	0	0	0	0	0	0	156	236	87	156	236	87
Total financial assets measured at fair value....	120,958	118,959	99,130	35,274	38,003	42,229	10,855	8,702	10,235	167,087	165,666	151,593

There were no transfers of debt securities of from level 1 to level 2 during the year (2016: £98m; 2015: nil).

(ii) Fair value hierarchy for liabilities measured at fair value in the statement of financial position

The table that follows presents an analysis of the SL Insurance Business' liabilities measured at fair value by level of the fair value hierarchy for each category as set out in Note 34 – Risk management.

	Fair value hierarchy									Total		
	Level 1			Level 2			Level 3			2017	2016	2015
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(£m)											
Non-participating investment contract liabilities	0	0	0	104,379	101,993	92,820	0	0	0	104,379	101,993	92,820
Derivative financial liabilities	161	184	183	607	766	1,056	0	0	0	768	950	1,239
Total financial liabilities at fair value.....	161	184	183	104,986	102,759	93,876	0	0	0	105,147	102,943	94,059

There were no transfers between levels 1 and 2 during the year (2016: nil)

(iii) Reconciliation of movements in level 3 instruments

The movements during the year of level 3 assets and liabilities held at fair value, excluding assets and liabilities held for sale, are analysed below:

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
At 1 January 2017	6,653	7	939	867
Total (losses)/gains recognised in the income statement.....	490	0	39	35
Purchases	2,235	0	181	362
Issue.....	0	0	0	0
Disposal proceeds	(526)	0	(290)	(125)
Transfers in to level 3	0	0	8	28
Transfers out of level 3	0	0	(7)	(43)

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
Reclassification between investment property and debt securities	(319)	0	0	319
Foreign exchange adjustment...	11	0	(15)	0
Total gains recognised in revaluation of owner occupied property within other comprehensive income.....	0	0	0	0
[Transfer to assets held for sale]*.....	(170)	(4)	0	0
Other	0	4	21	0
At 31 December 2017	8,374	7	875	1,443

As at 31 December 2017, of total gains, £428m (2016: £44m loss; 2015: £385m gain) were recognised in the income statement for assets and liabilities held at fair value classified as level 3 at year end.

Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

During 2017 income strips measured at £319m at 31 December 2016, which were previously included within investment property were reclassified as debt securities.

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
At 1 January 2016	8,437	31	894	786
Total (losses)/gains recognised in the income statement.....	(141)	0	89	33
Purchases	346	0	135	184
Issue	0	0	0	0
Disposal proceeds	(1,827)	(22)	(278)	(97)
Transfers in to level 3	0	0	65	0
Transfers out of level 3	0	0	(21)	(39)
Reclassification between investment property and debt securities	0	0	0	0
Foreign exchange adjustment...	45	0	56	0
Total gains recognised in revaluation of owner occupied	0	0	0	0

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
property within other comprehensive income.....				
[Transfer to assets held for sale]*.....	(191)	(8)	0	0
Other.....	(16)	6	0	0
At 31 December 2016	6,653	7	939	867

Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
At 1 January 2015	8,807	118	920	518
Total (losses)/gains recognised in the income statement.....	387	0	86	1
Purchases	1,799	0	116	360
Issue.....	0	0	0	0
Disposal proceeds	(1,721)	(92)	(312)	(111)
Transfers in to level 3	0	0	24	48
Transfers out of level 3	0	0	0	(30)
Reclassification between investment property and debt securities	0	0	0	0
Foreign exchange adjustment...	(10)	0	1	0
Total gains recognised in revaluation of owner occupied property within other comprehensive income.....	0	5	0	0
[Transfer to assets held for sale]*.....	0	0	0	0
Other.....	(104)	0	59	0
At 31 December 2015	8,437	31	894	786

Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

(iv) **Significant unobservable inputs in level 3 instrument valuations**

The table below identifies the significant unobservable inputs used in determining the fair value of level 3 instruments and quantifies the range of these inputs used in the valuation at the reporting date:

31 December 2017	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
Investment property and owner occupied property	8,312	Income capitalisation	Equivalent Yield	3.3% to 9.0% (5.2%)
			Estimated rental value per square metre	£32 to £1,716 (£326)
			Equivalent Yield	3.8% to 6.6% (5.1%)
			Estimated rental value per hotel room	£995 to £10,000 (£5,841)
Investment property and owner occupied property	69	Market comparison	Capital Value per unit (square metre)	£2 to £10,932 (£3,451)
Investment in equity securities and interests in pooled investment funds	875	Adjusted net asset value	Adjustment to net asset value ⁽¹⁾	N/A
Debt securities (commercial mortgages)	379	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (unquoted corporate bonds)	505	Discounted cash flow	Credit spread	0.7% to 2.1% (1.6%)
Debt securities (income strips)	520	Income capitalisation	Equivalent Yield	4.1% to 6.5% (5.1%)
Debt securities (infrastructure loans)	39	Discounted cash flow	Credit spread	1.9% to 2.6% (2.3%)
Debt securities (other)	0	Single broker	Single broker indicative price ⁽²⁾	N/A
31 December 2016	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
Investment property and owner occupied property	6,600	Income capitalisation	Equivalent Yield	3.60% to 9.1% (5.42%)
			Estimated rental value per square metre	£34 to £4,422 (£323)
			Equivalent Yield	4.60% to 7.10% (5.81%)
			Estimated rental value per hotel room	£995 - £13,750 (£4,209)
Investment property and owner occupied property	60	Market comparison	Capital Value per unit (square metre)	£2 to £12,807 (£4,209)
Investment in equity securities and interests in pooled investment funds	939	Adjusted net asset value	Adjustment to net asset value ⁽¹⁾	N/A
Debt securities (commercial mortgages)	451	Discounted cash flow	Credit spread	1.9% to 2.6% (2.1%)
Debt securities (unquoted corporate bonds)	373	Discounted cash flow	Credit spread	0.2% to 4.3% (1.9%)
Debt securities (infrastructure loans)	11	Discounted cash flow	Credit spread	1.3% (1.3%)
Debt securities (other)	32	Single broker	Single broker indicative price ⁽²⁾	N/A

31 December 2015	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
Investment property and owner occupied property	8,345	Income capitalisation	Equivalent Yield	2.1% to 15.5% (5.2%)
			Estimated rental value per square metre	£3 to £2,422 (£240)
			Equivalent Yield	4.6% to 7.2% (5.9%)
			Estimated rental value per hotel room	£995 to £13,748 (£5,632)
Investment property and owner occupied property	123	Market comparison	Capital Value per unit (square metre)	£2 to £14,604 (£4,246)
Equity securities and interests in pooled investment funds	894	Adjusted net asset value	Adjustment to net asset value ⁽¹⁾	N/A
Debt securities (commercial mortgages)	382	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (unquoted corporate bonds)	270	Discounted cash flow	Credit spread	0.2% to 4.0% (1.9%)
Debt securities (infrastructure loans)	0	Discounted cash flow	Credit spread	0
Debt securities (other)	134	Single broker	Single broker indicative price ⁽²⁾	N/A

Notes:

- (1) An adjustment is made to the valuations of private equity investments received from the investment managers of the underlying funds to estimate the effect of changes in market conditions between the date of their valuations and the end of the reporting period using market indices. The adjustment made at 31 December 2017 was £nil (2016: an increase of £40m).
- (2) Debt securities which are valued using single broker indicative quotes are disclosed in level 3 in the fair value hierarchy. No adjustment is made to these prices.

(v) **Sensitivity of the fair value of level 3 instruments to changes in key assumptions**

The shareholder is directly exposed to movements in the value of level 3 instruments held by the shareholder business (to the extent they are not offset by opposite movements in investment and insurance contract liabilities). Movements in level 3 instruments held in other risk segments are offset by an opposite movement in investment and insurance contract liabilities and therefore the shareholder is not directly exposed to such movements unless they are sufficiently severe to cause the assets of the participating business to be insufficient to meet the obligations to policyholders.

Changing unobservable inputs in the measurement of the fair value of level 3 financial assets and financial liabilities to reasonably possible alternative assumptions would not have a significant impact on profit or on total assets. The alternative assumptions used in this assessment for debt securities are:

Reasonably possible alternative assumptions:

	Credit spread +/-
Unquoted corporate bonds	0.45%
	Credit spread +/-
Commercial mortgages	0.40%

Whilst not having an impact on profit for the year, the SL Insurance Business has also considered the plausible range for the fair value of the investment properties at 31 December 2017. Based

on independent research that has considered the reasonableness of historic UK property values by comparing valuations with actual sales prices achieved a plausible range for the fair value of the SL Insurance Business' UK property portfolio, comprising over 90% of the SL Insurance Business' investment property portfolio is considered to be -4.8% to +8.3% of the 31 December valuation.

(e) **Fair value of assets and liabilities measured at amortised cost**

The table below presents estimated fair values of assets and liabilities whose carrying value does not approximate fair value. Fair values of assets and liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

	Note	As recognised in statement of financial position line item 2017	2017 Total Carrying value	2016 Total Carrying value	2015 Total Carrying value	2017 Fair Value	2016 Fair Value	2015 Fair Value
(£m)								
Assets								
Loans secured by mortgages.....	18	57	57	72	87	64	86	84
Liabilities								
Non-participating investment contract liabilities		4	4	4	4	4	4	4
Subordinated liabilities	30	318	318	318	317	349	334	345

The estimated fair values of the instruments detailed above are calculated by discounting the expected future cash flows at current market rates, with the exception of subordinated liabilities, which are based on the quoted market offer price.

It is not possible to reliably calculate the fair value of participating investment contract liabilities. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and Notes 2 and 28. The carrying value of participating investment contract liabilities at 31 December 2017 was £15,314m (2016: £15,537; 2015: £14,716m). The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

	Level 2			Level 3			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
(£m)									
Assets									
Loans secured by mortgages	64	86	84	0	0	0	64	86	84
Liabilities									
Non-participating investment contract liabilities	4	4	4	0	0	0	4	4	4
Subordinated liabilities	349	334	345	0	0	0	349	334	345

37 Contingent liabilities

(a) Annuity sales

As discussed in Note 32, at the request of the Financial Conduct Authority (FCA), Standard Life is conducting a past business review of non-advised annuity sales. The purpose of the review is to identify whether relevant customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and where appropriate provide redress to customers who have suffered loss as a result of not having received sufficient information. In relation to this review, the FCA is carrying out an investigation and it is possible that the FCA may impose a financial penalty on Standard Life. At this stage it is not possible to determine an estimate of the financial effect, if any, of this contingent liability.

Note 32 also provides disclosure of potential insurance recoveries relating to redress payable to customers, the costs of conducting the review and other related expenses. Any FCA levied financial penalties cannot be covered by such liability insurance.

(b) Legal proceedings and regulations

The SL Insurance Business, like other insurers, is subject to legal proceedings and complaints in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the directors do not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the SL Insurance Business.

The SL Insurance Business is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and it has complied with all the local solvency regulations. There are no contingencies associated with the SL Insurance Business' compliance or lack of compliance with these regulations.

38 Commitments

(a) Capital commitments

As at 31 December 2017, capital expenditure that was authorised and contracted for, but not provided and incurred, was £134m (2016: £290m ; 2015: £231m) in respect of investment property and income strips. Of this amount, £122m (2016: £224m; 2015: £204m) and £12m (2016: £66m; 2015: £27m) relates to contractual obligations to purchase, construct, or develop investment property and repair, maintain or enhance investment property respectively.

(b) Other financial commitments

The SL Insurance Business has £128m (2016: £154m; 2015: £110m) unrecognised financial commitments of which £93m relate to private equity (2016: £106m; 2015: £92m).

39 Related party transactions

(a) Transactions with and balances due from/to related parties

In the normal course of business, the SL Insurance Business enters into transactions with related parties that relate to the provision of staff, physical infrastructure and support services with SL Group companies not within the Transaction perimeter.

The following are details of such transactions in the three years ended 31 December 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(<i>£m</i>)	
Revenue:			
Transactions with the SL Group	120	137	131
Total revenue.....	120	137	131
Expenses:			
Interest in relation to the subordinated loan (note 27)	54	54	54
Transactions with the SL Group	649	613	623
Total expenses	<u>703</u>	<u>667</u>	<u>677</u>

Transactions with the SL Group – revenue relate primarily to dividend and interest income from entities within the SL Group which are outside of the Transaction perimeter.

Transactions with the SL Group – expenses relate primarily to costs, which include interest, fund management fees and commission, recharged by entities within the SL Group which are outside of the Transaction perimeter.

Other transactions with related parties relate primarily to intercompany recharges from SLES�, which include staff costs and office accommodation costs.

The year end balances arising from transactions with related parties are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(<i>£m</i>)	
Due from related parties:			
Amounts due from other related parties.....	36	56	100
Total due from related parties	<u>36</u>	<u>56</u>	<u>100</u>
Due to related parties:			
Amounts due to other related parties	73	67	117
Subordinated intercompany loan (note 27).....	318	318	317
Total due to related parties	<u>391</u>	<u>385</u>	<u>434</u>

Amounts due from other related parties primarily relate to intercompany receivables.

Amounts due to other related parties primarily include intercompany payables to SLES� for staff and office accommodation costs.

(b) Compensation of key management personnel

Key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the SL Insurance Business, comprised 8 people (2016: 12 people; 2015 8 people) and included all directors of the SL Insurance Business.

Compensation of key management personnel was:

	2017	2016	2015
		(£'000)	
Salaries and other short-term employee benefits	2,175	2,761	5,190
Post-employment benefits	107	1,201	1,021
Termination benefits.....	5	—	152
Share based payments.....	203	683	1,732
Compensation payments.....	419	—	14
Total compensation of key management personnel ...	2,909	4,645	8,109

A number of the key management personnel of the SL Insurance Business are also key management personnel of other entities within the Standard Life Group. However, for the purposes of this note an apportionment of the total compensation paid to the key management personnel of the SL Insurance Business by the Group has been made based on an estimate of the services rendered to the SL Insurance Business.

40 Transaction perimeter

The particulars of the significant legal entities transferring to Phoenix as part of the Transaction are as follows:

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
Standard Life Assurance Limited	United Kingdom	Ordinary Shares	100.0%
Vebnet (Holdings) Limited	United Kingdom	Ordinary Shares	100.0%
Standard Life International Designated Activity Company	Ireland	Ordinary Shares	100.0%
Standard Life Investment Funds Ltd	United Kingdom	Ordinary Shares	100.0%
Standard Life Lifetime Mortgages Ltd	United Kingdom	Ordinary Shares	100.0%
Standard Life Pension Funds Ltd	United Kingdom	N/A	100.0%

Other significant holdings in funds are as follows:

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
Crawley Unit Trust	Jersey	Unit Trust	100.0%
Emerging Markets Debt Fund	United Kingdom	OEIC	86.4%
European Strategic Partners	United Kingdom	Limited Partnership	72.7%
European Strategic Partners II	United Kingdom	Limited Partnership	68.8%
European Trust 2	United Kingdom	Unit Trust	100.0%
Global Absolute Return Strategies	Luxembourg	SICAV	80.6%
Global Emerging Markets Equity Fund	Luxembourg	SICAV	96.9%
Japanese Equity Growth Fund	Luxembourg	SICAV	96.0%
Multi Asset Trust	United Kingdom	Unit Trust	100.0%

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
MyFolio Managed I Fund	United Kingdom	OEIC	62.1%
MyFolio Managed II Fund	United Kingdom	OEIC	63.6%
MyFolio Managed III Fund	United Kingdom	OEIC	73.9%
MyFolio Managed Income III Fund	United Kingdom	OEIC	51.0%
MyFolio Managed Income V Fund	United Kingdom	OEIC	57.5%
MyFolio Managed IV Fund	United Kingdom	OEIC	60.3%
MyFolio Managed V Fund	United Kingdom	OEIC	68.5%
MyFolio Market III Fund	United Kingdom	OEIC	61.5%
MyFolio Market IV Fund	United Kingdom	OEIC	60.6%
MyFolio Market V Fund	United Kingdom	OEIC	69.6%
MyFolio Multi-Manager I Fund	United Kingdom	OEIC	53.6%
MyFolio Multi-Manager II Fund	United Kingdom	OEIC	54.0%
MyFolio Multi-Manager III Fund	United Kingdom	OEIC	60.1%
MyFolio Multi-Manager Income III Fund	United Kingdom	OEIC	50.1%
MyFolio Multi-Manager Income V Fund	United Kingdom	OEIC	54.8%
MyFolio Multi-Manager IV Fund	United Kingdom	OEIC	53.8%
North American Strategic Partners (Feeder) 2006	United Kingdom	Limited Partnership	69.8%
North American Strategic Partners (Feeder) 2008 LP	United Kingdom	Limited Partnership	100.0%
SCV Emerging Market Corporate Bond	Luxembourg	SICAV	88.0%
SCV Euro Government All Stocks Fund	Luxembourg	SICAV	100.0%
SCV European Equities Fund-	Luxembourg	SICAV	69.6%
SCV European Equity Unconstrained Fund	Luxembourg	SICAV	85.6%
SCV Global Bond Fund	Luxembourg	SICAV	71.7%
SCV Global Emerging Markets Equity Unconstrained	Luxembourg	SICAV	87.4%
SCV Global Equities Fund	Luxembourg	SICAV	86.9%
SCV Global REIT Focus Fund	Luxembourg	SICAV	87.0%
SCV India Equities Fund	Luxembourg	SICAV	63.6%
SCV Japanese Equities Fund	Luxembourg	SICAV	97.0%
SCV Global Focused Strategies Fund	Luxembourg	SICAV	56.9%
Seabury Assets Fund plc (Fund No 1)	Ireland	OEIC	63.3%
Short Dated UK Government Bond Fund	United Kingdom	Unit Trust	100.0%
SLDT – Strategic Bond Fund	United Kingdom	Unit Trust	53.4%
SLI (Global Liquidity Funds) - Euro VNAV Liquidity Fund	Ireland	OEIC	100.0%
SLI (Global Liquidity Funds) - Sterling VNAV Liquidity Fund	Ireland	OEIC	98.9%
SLI UK Retail Park Trust	Jersey	Unit Trust	56.6%
SLIC - UK Opportunities	United Kingdom	OEIC	67.5%
SLIC II - Corporate Debt Fund	United Kingdom	OEIC	100.0%
SLIC-Emerging Markets Equity Fund	United Kingdom	OEIC	87.1%
SLTM - Standard Life UK Corporate Bond	United Kingdom	Unit Trust	100.0%
SLTM - Standard Life UK Government Bond	United Kingdom	Unit Trust	100.0%

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
Standard Life Active Plus Bond Trust	United Kingdom	Unit Trust	100.0%
Standard Life Enhanced Diversification Growth Fund	United Kingdom	OEIC	98.0%
Standard Life Europe	United Kingdom	OEIC	100.0%
Standard Life European Ethical Equity Fund	United Kingdom	OEIC	89.3%
Standard Life European Private Equity Trust plc	United Kingdom	Ordinary Shares	56.3%
Standard Life European Trust	United Kingdom	Unit Trust	98.2%
Standard Life Global Equity Trust II	United Kingdom	Unit Trust	100.0%
Standard Life International Trust	United Kingdom	Unit Trust	100.0%
Standard Life Japan Trust	United Kingdom	Unit Trust	78.4%
Standard Life North American Trust	United Kingdom	Unit Trust	99.8%
Standard Life Pacific Basin Trust	United Kingdom	Unit Trust	98.1%
Standard Life Pan European Trust	United Kingdom	Unit Trust	100.0%
Standard Life Investments Global Real Estate Fund	United Kingdom	Unit Trust	55.0%
Standard Life UK Equity General Trust	United Kingdom	Unit Trust	99.8%
UK Property Companies	United Kingdom	Ordinary Shares	100.0%
		Limited	
European Strategic Partners General Partner	United Kingdom	Partnership	50.0%
Gallions Reach Shopping Park Unit Trust	Jersey	Unit Trust	100.0%
MyFolio Multi-Manager V Fund	United Kingdom	OEIC	51.0%
SCV Absolute Return Global Bond Strategies	Luxembourg	SICAV	62.8%
“SCV Global Emerging Markets Local Currency Debt	Luxembourg	SICAV	71.5%
SCV Global High Yield Bond	Luxembourg	SICAV	78.2%
SLIC II - SLI Ethical Corporate Bond Fund	United Kingdom	OEIC	66.8%
Global REIT Fund	Luxembourg	SICAV	55.0%
SCV Global Corporate Bond Fund-SH8B-8B USD	Luxembourg	SICAV	61.2%
		Limited	
Castlepoint Centre Limited Partnership	United Kingdom	Partnership	50.0%
		Limited	
Gallions Reach Shopping Park Limited Partnership	United Kingdom	Partnership	100.0%
SLI Global SICAV II Global Short Duration Corporate Bond Fund	Luxembourg	SICAV	80.4%
SICAV China Equities Fund-SR-CE	Luxembourg	SICAV	50.1%
Standard Life Investments Short Dated Corporate Bond Fund	United Kingdom	OEIC	50.1%
American Equity Income Fund	United Kingdom	OEIC	65.3%
American Equity Unconstrained Fund	United Kingdom	OEIC	52.8%
Standard Life Investments GS (Mauritius Holdings) Limited	Mauritius	Ordinary Shares	100.0%
SLMT American Equity Unconstrained Fund	UK	OEIC	100.0%

41 IFRS 1 opening balances disclosure

As the SL Insurance Business has not previously prepared standalone financial statements, this Historical Financial Information is the first IFRS financial statements of the SL Insurance Business. Accordingly, an opening combined balance sheet as at 1 January 2015 has been presented below.

	Note	2014
		(<i>£m</i>)
Assets		
Intangible assets	10	44
Deferred acquisition costs	11	657
Investment property	12	8,087
Property and equipment	13	118
Pension and other post-retirement benefit assets.....	28	760
Deferred tax assets		8
Reinsurance assets.....	25	6,033
Loans.....		471
Derivative financial assets.....		3,998
Equity securities and interests in pooled investment funds.....		74,266
Debt securities.....		63,054
Receivables and other financial assets		994
Other assets		271
Assets held for sale		971
Cash and cash equivalents.....		10,345
Total assets		170,077
Net Investment		
Net Parent Investment.....	22	1,983
[Subordinated notes]	23	502
Non-controlling interests.....	24	283
Total Net Investment		2,768
Liabilities		
Non-participating insurance contract liabilities.....	25	21,517
Non-participating investment contract liabilities	25	88,145
Participating contract liabilities.....	25	31,236
Deposits received from reinsurers.....		5,642
Third party interest in consolidated funds.....		13,616
Subordinated liabilities.....		611
Pension and other post-retirement benefit provisions	28	44
Deferred income.....		271
Current tax liabilities.....		147
Deferred tax liabilities.....	14	175
Derivative financial liabilities		1,673

	Note	2014
		(<i>£m</i>)
Other financial liabilities.....		3,180
Other liabilities.....		91
Liabilities held for sale.....		961
Total liabilities		<u>167,309</u>
Total equity and liabilities		<u><u>170,077</u></u>

42 Events after the reporting period

On 23 February 2018 Standard Life Aberdeen plc announced the sale of the majority of the Pensions and Savings business, which includes the disposal of Standard Life Assurance Limited, to Phoenix Group Holdings (Phoenix), conditional on shareholder and relevant regulatory approvals.

Under the transaction the UK retail platforms, including Wrap and Elevate, the advice subsidiaries and UK and Ireland staff pension scheme assets and liabilities are retained by Standard Life Aberdeen plc.

Standard Life Aberdeen plc and Phoenix have also agreed to significantly expand their existing long-term strategic partnership whereby Standard Life Aberdeen plc becomes Phoenix's long-term asset management partner for the business acquired by Phoenix and the existing arrangements between the parties under which Aberdeen Standard Investments manages £48 billion of assets for Phoenix have been extended.

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