**PROSPECTUS DATED 21 JANUARY 2015**

PHOENIX GROUP

# PGH Capital Limited

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

# £428,113,000 6.625 per cent. Guaranteed Subordinated Notes due 2025 guaranteed on a subordinated basis by Phoenix Group Holdings

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

## Issue Price: 100 per cent.

The £428,113,000 6.625 per cent. Guaranteed Subordinated Notes due 2025 guaranteed by Phoenix Group Holdings (the "**Guarantor**" and, together with its consolidated subsidiaries, the "**Group**") on a subordinated basis (the "**Notes**") will be issued by PGH Capital Limited (the "**Issuer**") on or about 23 January 2015 (the "**Issue Date**"). The Notes will bear interest from (and including) the Issue Date to (but excluding) 18 December 2025 (the "**Maturity Date**") (or such later date as the Notes become due for redemption in accordance with these Conditions) at a fixed rate of 6.625 per cent. per annum. Save in relation to the first short Interest Period, interest will be payable on the Notes annually in arrear on 18 December in each year (each, an "**Interest Payment Date**"), commencing on 18 December 2015, provided that interest will be mandatorily deferred (i) on any Regulatory Deficiency Interest Deferral Date (as defined in the Conditions) and/or (ii) if such payment could not be made in compliance with the Solvency Condition (as defined in the Conditions). Any interest which is deferred will, for so long as it remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest and will be payable as provided in Condition 6(*d*).

Subject to the following proviso, the Notes will (unless previously redeemed or purchased and cancelled) mature on the Maturity Date, and may, subject to regulatory clearance and certain other conditions, be redeemed at the option of the Issuer (i) at any time following the occurrence of a Capital Disqualification Event (as defined in the Conditions) or (ii) in the event of certain changes in the tax treatment applicable to the Notes, provided that redemption of the Notes on the Maturity Date or any other date set for redemption of the Notes shall be deferred if (a) a Regulatory Deficiency Redemption Deferral Event (as defined in the Conditions) has occurred and is continuing on such date, or would occur if the Notes were to be redeemed or (b) the Notes could not be redeemed in compliance with the Solvency Condition.

The Issuer may, alternatively, following the occurrence of a Capital Disqualification Event or in the event of certain changes in the tax treatment applicable to the Notes, subject to regulatory clearance and certain other conditions, vary or substitute the Notes in the circumstances described in Condition 8.

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

None of the Issuer, the Guarantor or the Notes will be rated by any rating agency at the date of issue of the Notes.

**Potential investors should read the whole of this Prospectus, in particular the "Risk Factors" set out on pages** 19 **to** 55**.**

The Notes will be issued in registered form in principal amounts of £100,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented by a global certificate in registered form (the "**Global Certificate**") registered in the name of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about the Issue Date. Individual certificates ("**Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances described under "*Summary of Provisions relating to the Notes whilst in Global Form*".

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**").

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor (each 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.

Save for the Issuer and the Guarantor, no other party has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any other person as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes. No third party accepts any responsibility or liability in relation to the information contained in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes or their distribution.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Guarantor to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Guarantor to inform themselves about and to observe any such restrictions.

No person is or has been authorised by the Issuer, the Guarantor or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantor, the Trustee or any other person that any recipient of this Prospectus or of any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, the Trustee or any other person to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is not permitted by law.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

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.

All references in this Prospectus to "**sterling**" and "**£**" refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to "**euro**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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. The Issuer is not and will not be regulated by the Central Bank of Ireland as a result of issuing the Notes.

### *Definitions*

Capitalised terms used herein and not otherwise defined in context have the meaning given in "*Definitions*" at the end of this Prospectus.

## 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, respective results of operations, financial position, liquidity, prospects, dividends, growth, strategies, business transformation plans and the regulatory environment in which the Group operates.

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 operations of the Group, its financial position and liquidity, the Guarantor's 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, financial position and liquidity 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 factors discussed in the section headed "*Risk Factors*" on pages 19 to 55 of this Prospectus;
- domestic and global economic and business conditions;
- asset values;
- market related risks such as fluctuations in interest rates and exchange rates and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, changes in rules and regulations relating to capital and liquidity requirements and rules, regulations and investigations relating to the Group's business and the markets in which it operates;
- the impact of inflation and deflation;
- market competition;
- changes in assumptions in pricing and reserving for the Group's insurance business (particularly with regard to longevity, mortality and morbidity trends, gender pricing and lapse rates);
- the timing, impact and other uncertainties of future acquisitions, combinations within relevant industries or change plans being executed by the Group;
- risks associated with arrangements with third parties;
- inability of reinsurers to meet obligations or unavailability of reinsurance coverage; and
- the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

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, liquidity, prospects, dividends, growth, strategies, change plans and the regulatory environment in which the Group operates. 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, the Prospectus Rules and the Disclosure and Transparency Rules, neither the Issuer nor the Guarantor undertakes any 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 the Issuer's, the Guarantor's or the Group's expectations or to reflect events or circumstances after the date of this Prospectus.

## 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 the 2014 Q3 Interim Management Statement, the 2014 Half Year Report and Accounts, the 2013 Annual Report, the 2012 Annual Report and the 2011 Annual Report published by the Guarantor, which have been previously published and which have been approved by the Financial Conduct Authority (or as the case may be its successor thereto) 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.

Copies of the 2014 Q3 Interim Management Statement, the 2014 Half Year Report and Accounts, the 2013 Annual Report, the 2012 Annual Report and the 2011 Annual Report published by the Guarantor have been filed with the National Storage Mechanism or announced through a Regulatory Information Service and are available on the Guarantor's corporate website at http://www.thephoenixgroup.com and are available free of charge at the Guarantor's principal place of business at 1st Floor, 32 Commercial Street, St. Helier, Jersey JE2 3RU, Channel Islands.

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*The following overview refers to certain provisions of the terms and conditions of the Notes and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in "Terms and Conditions of the Notes" have the same meaning when used in this overview. References to numbered Conditions are to the terms and conditions of the Notes (the "**Conditions**") as set out under "Terms and Conditions of the Notes".*

| | |
|---|---|
| **Issuer** | PGH Capital Limited. |
| **Guarantor** | Phoenix Group Holdings. |
| **Trustee** | Citibank, N.A., London Branch. |
| **Principal Paying Agent and Transfer Agent** | Citibank, N.A., London Branch. |
| **Registrar** | Citigroup Global Markets Deutschland AG. |
| **Notes** | £428,113,000 6.625 per cent. Guaranteed Subordinated Notes due 2025. |
| **Issue Date** | 23 January 2015. |
| **Risk Factors** | There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Guarantor's ability to fulfil its obligations under the Guarantee. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under "Risk Factors". |
| **Status** | The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves.<br>If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and (subject to Condition 11(*d*)) the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee (subject to Condition 3(c)(iv)) or the Noteholders would (when taken together with any amounts recovered by the Noteholders or the Trustee on their behalf in the Guarantor Winding-Up) recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a direct subordinated obligation of the Guarantor for an amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee), then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such excess amounts and the right thereto to the Guarantor and shall |

irrevocably authorise and direct (and be treated as having irrevocably authorised and directed) the Issuer (or its liquidator or administrator, as appropriate) to make the payment of such excess amounts directly to the Guarantor, and following such assignment the Trustee and the Noteholders shall have no further rights against the Issuer or the Guarantor in respect of such excess amounts.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders (in each case in relation to any amount which they are entitled to receive in such Issuer Winding-Up in respect of, or arising under, the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder) but subject to Condition 3(c)(iv)) shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably all such amounts and all rights thereto to the Guarantor as consideration for the Guarantor's agreement to assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer pursuant to, and in accordance with, Condition 4(*d*) and irrevocably to have authorised and directed the Issuer (or its liquidator or administrator, as appropriate) to make the payment of any such amounts directly to the Guarantor, and following such assignment the Trustee and the Noteholders shall have no further rights against the Issuer or the Guarantor in respect of such amounts.

The occurrence of such Issuer Winding-Up in circumstances when a Guarantor Winding-Up has not also occurred or is not occurring shall not result in acceleration of any payment of principal, interest (including Arrears of Interest) or other amounts under the Notes or the Trust Deed or any amount under the Guarantee in respect thereof against the Guarantor or any Substituted Obligor.

**Guarantee and Subordination; Solvency Condition**

The Guarantor has (subject as provided in Conditions 3(*d*), 4(*b*), 6(*a*), 6(*d*) and 8(*b*)) in the Trust Deed guaranteed on the terms set out therein the due and punctual payment of all principal, interest, Arrears of Interest and other sums from time to time which are due and payable in respect of the Notes or under, or pursuant to, the Trust Deed. The rights and claims of Noteholders against the Guarantor are subordinated in a Guarantor Winding-Up as described in Condition 4(*b*).

In addition, other than in circumstances where a Guarantor Winding-Up has occurred or is occurring (but subject to Condition 3(*c*)(iv)), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes or the Trust Deed (including, without limitation, the Guarantee) shall be conditional upon the satisfaction of the Solvency Condition (as that term is described in Condition 3(*d*)) at the time for payment by the Issuer or, as appropriate, the Guarantor and immediately thereafter.

| | |
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| **Interest** | The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 18 December 2025 (the "**Maturity Date**") (or such later date as the Notes become due for redemption in accordance with these Conditions) at a fixed rate of 6.625 per cent. per annum and (save in respect of the short first Interest Period and subject as provided under "Mandatory deferral of interest" below) shall be payable annually in arrear on 18 December in each year, commencing on 18 December 2015. The first Interest Period shall be a short interest period from (and including) the Issue Date to (but excluding) 18 December 2015. |
| **Mandatory deferral of interest** | Payment of interest on the Notes and any Guaranteed Amounts with respect to interest are required to be deferred (i) 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 on the Notes were to be made) or (ii) if such payment could not be made in compliance with the Solvency Condition.<br><br>Deferral of interest in accordance with the Conditions will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee). |
| **Arrears of Interest** | Any interest which is deferred in accordance with the Conditions will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by the Issuer as provided in Condition 6(*d*). |
| **Redemption at maturity** | Unless previously redeemed or purchased and cancelled, the Issuer will (subject as provided under "*Deferral of redemption*" below) redeem the Notes on the Maturity Date at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date. |
| **Redemption, substitution or variation upon a relevant tax law change** | If:<br><br>(a) 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, on the next Interest Payment Date, either (a) the Issuer will or would be required to pay additional amounts as provided |

or referred to in Condition 9; or (b) the Guarantor in making payment of Guaranteed Amounts will or would be required to pay such additional amounts; or (c) 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 Ireland or (if the Issuer becomes subject to corporation tax in the United Kingdom) the United Kingdom; or (d) the Issuer or the Guarantor, as the case may be, suffers or would suffer any other material adverse tax consequence in connection with the Notes or the Guarantee in a Relevant Jurisdiction other than the Cayman Islands; and

(b) 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, in accordance with Condition 8(*d*), upon notice to, *inter alios*, the Noteholders either:

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

(b) substitute all (but not some only) of the Notes at any time for, or vary the terms of the Notes so that they become or remain, Qualifying Securities,

all as more particularly described in Condition 8(*d*).

**Redemption, Substitution or Variation upon a Capital Disqualification Event**

If a Capital Disqualification Event has occurred and is continuing, the Issuer may at its option, in accordance with Condition 8(*e*), upon notice to, *inter alios*, the Noteholders either:

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

(b) substitute all (but not some only) of the Notes at any time for, or vary the terms of the Notes so that they become or remain, Qualifying Securities,

all as more particularly described in Condition 8(*e*); provided, however, that the Issuer shall not be entitled to redeem the Notes pursuant to (a) above upon the occurrence of a Capital Disqualification Event if such Capital Disqualification Event has occurred as a result of any change to the terms of, or any replacement of, the Tier 2 On-Loan which, at the time of such change or replacement, would, or is reasonably likely to, result in the occurrence of a Capital Disqualification Event.

**Deferral of redemption**

No Notes shall be redeemed on the Maturity Date or on any other date set for redemption pursuant to Conditions 8(*d*) or 8(*e*) and no Guaranteed Amounts in respect of principal shall be become due on such date if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were to be redeemed, (ii) such redemption could not be made in compliance with the Solvency Condition or (iii) regulatory approval (to the extent then required) is not given for such redemption or such redemption cannot otherwise be effective in compliance with Relevant Rules (if and to the extent applicable at such time).

If redemption of the Notes is deferred, the Issuer will only redeem the Notes as provided in Condition 8(*b*).

The deferral of redemption of the Notes in accordance with the Conditions will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

**Pre-conditions to redemption, variation, substitution or purchase**

Any purchase of Notes by the Issuer, the Guarantor or any Subsidiary of the Guarantor, 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 the Issuer, the Guarantor and the Insurance Group being in continued compliance with the Regulatory Capital Requirements (if any) applicable to them; (ii) the Issuer or the Guarantor having complied with the Regulatory Clearance Condition; (iii) in the case of any redemption or purchase of the Notes prior to the sixth anniversary of the Issue Date, the Issuer replacing the Notes with, or repaying the Notes out of the proceeds of a new issue of, capital having the characteristics of Tier 2 Capital or a better quality form of regulatory capital; 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.

*As at the date of this Prospectus, neither the Issuer nor the Guarantor is required to comply with the Regulatory Clearance Condition in respect of any redemption, substitution, variation or purchase of the Notes.*

**Withholding tax and additional amounts**

The Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature required by law in the Relevant Jurisdiction upon payments made by or on behalf of the Issuer in respect of the Notes or by or on behalf of the Guarantor under the Guarantee, will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions as set out in Condition 9.

**Events of Default**

*Guarantor not in Guarantor Winding-Up*

If (1) neither an Issuer Winding-Up nor a Guarantor Winding-Up has occurred or (2) an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring and, in either case, the Issuer is in default in the payment of any interest or of any principal due in respect of the Notes or any of them, then the Trustee and the Noteholders may, in accordance with the terms of the Guarantee, but subject also to Conditions 3(*d*), 6(*a*) and 8(*b*), claim under the Guarantee for such payments due but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.

A default by the Issuer in the payment of any interest or of any principal due in such circumstances shall not result in the acceleration of any payment of principal, interest (including Arrears of Interest) or other amounts under the Notes or the Trust Deed (whether against the Issuer or any Subsidiary substituted in accordance with Condition 4(*d*)) or of any amount under the Guarantee in respect thereof against the Guarantor.

*Guarantor in Guarantor Winding-Up and Issuer in Issuer Winding-Up*

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and (subject to Condition 11(*d*)) the Noteholders may claim under the Guarantee for the Guaranteed Amounts and the Trustee at its discretion may and, if so directed by one fifth in principal amount of the 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): (x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at an amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest; and (y) prove in the relevant winding-up or administration of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor, but may take no further or other action to enforce, prove or claim for any payment by the Issuer or the Guarantor in respect of the Notes or the Trust Deed (including, without limitation, the Guarantee).

*Guarantor non-payment or Guarantor Winding-Up*

If (A) default is made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee or (B) a Guarantor Winding-Up occurs at any time when an Issuer Winding-Up has not occurred or is not occurring, the Trustee at its discretion may, and if so directed by one fifth in principal amount of the 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): (x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at an amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest; and (y) in the case of (A), institute proceedings for the winding-up of the Guarantor or, in the case of (A) or (B), prove in the winding-up or administration of the Guarantor and/or claim in the liquidation of the Guarantor, but (in either case) may take no further or other action to enforce, prove or claim for any payment by the Issuer or the Guarantor in respect of the Notes or the Trust Deed (including the Guarantee).

*The right to prove in winding-up proceedings in respect of the Issuer is limited to those circumstances where both an Issuer Winding-Up and a Guarantor Winding-Up have also occurred or are occurring.*

*If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not also occurring, the Guarantor shall (as more particularly described in the Trust Deed) assume, or shall procure the assumption by a Subsidiary of the Guarantor of, all of the obligations of the Issuer under the Notes and the Trust Deed as if references in the Notes and the Trust Deed to "the Issuer" were to the Guarantor or the relevant Subsidiary (as the case may be) but provided that the claims of the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders against the Guarantor in respect of all payment obligations under the Notes and the Trust Deed shall rank pari passu with the Guarantee.*

*The right to institute winding-up proceedings in respect of the Guarantor is limited to circumstances where a payment under the Guarantee has become due and has not been paid by the Guarantor. For the avoidance of doubt, unless a Guarantor Winding-Up has occurred, no amount shall be due from the Guarantor 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 6(a) or 8(b).*

**Substitution of obligor and transfer of business**

The Conditions permit the Trustee to agree to the substitution in place of the Issuer or the Guarantor of a Substituted Obligor in

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| | the circumstances described in Condition 14 without the consent of Noteholders.<br>If a Newco Scheme occurs, the 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 or (ii) as issuer of the Notes in place of the Issuer. |
| **Meetings of Noteholders** | The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. |
| **Form** | The Notes will be issued in registered form only and will be represented upon issue by a registered global certificate (the "**Global Certificate**") which will be registered in the name of a nominee for a common depositary for Clearstream Luxembourg, *société anonyme* and Euroclear Bank SA/NV on or about 23 January 2015. Save in the limited circumstances described under "*Summary of Provisions relating to the Notes whilst in Global Form*", Notes in definitive form will not be issued in exchange for interests in the Global Certificate. |
| **Denomination** | The denomination of the Notes shall be £100,000 and higher integral multiples of £1,000. |
| **Listing** | Application has been made to the FCA under Part VI of the FSMA for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. |
| **Governing law** | The Notes and the Trust Deed (including the Guarantee), and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed (including the Guarantee), will be governed by, and construed in accordance with, English law, save that (i) the provisions of Condition 3 relating to the status and subordination of the Notes, the corresponding provisions of the Trust Deed and any non-contractual obligations arising out of or in accordance with, Irish law and (ii) the provisions of Condition 4 relating to the status and subordination of the Guarantee and the corresponding provisions of the Trust Deed, will be governed by, and construed in accordance with, the laws of the Cayman Islands. |
| **Clearing Systems** | Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV. |
| **ISIN** | XS1171593293 |
| **Common Code** | 117159329 |

# RISK FACTORS

*Investing in the Notes involves certain risks. The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes and/or the Guarantee. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring. Any of these risk factors, individually or in the aggregate, could have an adverse effect on the Group and the impact each risk could have on the Group is set out below.*

*Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

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

## Risks Related to the Group

### 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 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.

The Group's insurance operations are conducted through subsidiaries. The Holding Companies ultimately rely on distributions and other payments from their subsidiaries, including in particular the Life Companies, to meet the funding requirements of Group companies which do not generate a cash surplus from their operations and other activities. The Holding Companies' principal sources of funds are dividends, inter-company loans 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, debt and commercial paper. As a result, deterioration in the liquidity and solvency position of the Life Companies could, in addition to its impact on the individual Life Companies, have an adverse impact on the Group's funding, which could have a material adverse effect on the Group's financial condition and prospects.

In addition to the planned issuance of the Notes, the Holding Companies and the Issuer have ongoing principal repayment and interest payment obligations in respect of a senior bond issue (being the Senior Bond, which is described in "*Description of Certain Other Indebtedness—The Senior Bonds*") and a credit facility (being the Facilities Agreement, which is described in "*Description of Certain Other Indebtedness—The Facilities Agreement*") which obligations are funded by the release of capital, profits and liquidity from the Group's operating units. The availability and amounts of cash flows from subsidiaries, in particular the Life Companies, may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital in the Group's subsidiaries. Although the Holding Companies maintain cash buffers to reduce the reliance on emerging cash flows in any particular year, in the event that cash flows from the Group's subsidiaries are limited as a consequence of periods of severe market turbulence, this may impair the Group's ability to service these obligations. This may result in material adverse consequences, including actions taken by the relevant regulator and/or, by external finance providers which may cause indebtedness to become immediately due and payable and the exercise by the trustee of the Pearl Group Staff Pension Scheme of its security rights over shares in Group companies.

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

**The Group could be materially adversely affected by the level of its indebtedness and its financing structure.**

The total principal amount outstanding under the Group's Senior Bond and credit facilities as at 30 September 2014 was £1,200 million. The cash flows emerging from the Group's subsidiaries during the period to maturity of the Notes, Senior Bond and credit facilities may be insufficient to meet the Group's repayment obligations.

The Group may still need to refinance the remaining outstanding principal amount of its credit facilities on terms which could potentially be less favourable than the existing terms or under unfavourable market conditions, or include provisions which make it difficult for the Group to satisfy its obligations with respect to its debt obligations, including the Notes, or the Group may be unable to refinance those obligations at all. More information on the Group's bond and credit facilities, including the covenants which impose limitations on its ability to undertake certain actions are detailed in *"Description of Certain Other Indebtedness—The Facilities Agreement"*.

The Group's level of indebtedness and restrictions on the Group under the terms of its bond and credit facilities could have a material adverse effect on the Group, including:

- making it more difficult for the Group to satisfy its obligations with respect to its other debt and other liabilities;
- requiring the Group to dedicate a substantial portion of its cash flow to payments on its senior debt, thus reducing funds available for distribution to holders of the Notes and/or holders of other securities;
- 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;
- increasing the Group's vulnerability to a downturn in economic conditions;
- exposing the Group to increases in interest rates to the extent its variable rate debt is unhedged;
- placing the Group at a competitive disadvantage compared to its competitors that have lower levels of indebtedness;
- 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.

On the other hand, the Group's leverage currently has a positive effect on the Group's embedded value through the beneficial impact of the tax deductibility of interest and so any significant reduction in or restructuring of its indebtedness and associated interest costs may have an adverse impact on the Group's embedded value as a consequence of higher tax payments than currently projected by the Group. Further, 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 its financing structure could therefore have a material adverse effect on the Group's business, results, financial condition and prospects.

**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 strategy.**

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 hinder the Group's ability to implement its business strategy and the Issuer's and/or Guarantor's ability to make payments on the Notes or the Guarantee (as the case may be). The Group is also subject to other financial and non-financial restrictions that may limit its ability to lend money and pay dividends. In addition, a breach of the provisions of the Notes and/or the Guarantee or 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.

**The Group may have to retain more regulatory capital as a result of fluctuations in investment markets or regulatory capital requirements, such as those imposed by regulators such as the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). As industry regulators, the PRA and FCA are able to restrict the payment of cash from the Group's subsidiaries.**

Firms that are permitted to conduct insurance business in the UK are required to maintain a minimum level of assets (referred to as regulatory capital). Continued fluctuations in investment markets will, directly or indirectly, affect levels of regulatory capital required to be held by the Group. The PRA has the power under FSMA to place limitations upon the payment of cash from PRA regulated entities if, among other things, the PRA deems this necessary to preserve the entities' capital adequacy position.

In addition, the PRA may, under existing regulations, impose stricter regulatory capital requirements on the Group or existing regulations may be amended in the future or new regulations may be implemented (for example, Solvency II, which is a new prudential framework for insurance companies to determine their regulatory capital requirements in the future). For further discussion of Solvency II, see "*Regulatory Overview—Regulation Applicable to the Group's Insurance Business—Solvency II*".

The Group is subject to capital adequacy requirements under both EU-directive based "Pillar 1" requirements and "Pillar 2" requirements, which are additional risk-based capital requirements that the PRA has implemented in the UK. A UK life company's actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the relevant UK life company. Each Life Company generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and cause the company to fail the minimum level of regulatory capital test.

The Life Companies' Pillar 1 requirements are aggregated under the EU Insurance Groups Directive ("**IGD**") to calculate regulatory capital adequacy at a group level. Insurance groups are required to hold capital resources at least equal to their capital resource requirements as measured at the ultimate insurance parent undertaking within the EEA. The Group is required to perform its IGD calculation and its PLHL ICA (as described below) at the level of the highest EEA level insurance group holding company, which is PLHL, a subsidiary of the Guarantor and the ultimate insurance parent undertaking within the EEA. As at 30 June 2014, the Group's IGD surplus was estimated to be £1.3 billion, £1.2 billion as at 31 December 2013, £1.4 billion as at 31 December 2012, and £1.3 billion at 31 December 2011. The surplus over the Group's IGD capital policy was estimated to be £0.6 billion as at 30 June

2014, £0.5 billion as at 31 December 2013, £0.6 billion as at 31 December 2012, and £0.4 billion at 31 December 2011. As at 30 September 2014, the surplus over the Group's IGD capital policy was estimated to be £0.4 billion.

The Group is required to hold sufficient capital of appropriate quality to ensure that the IGD calculation at the PLHL level is positive. The Group's capital policy, which is agreed with the PRA, is to maintain group capital resources calculated at the PLHL level at an amount in excess of:

- 105 per cent. of the with-profit insurance capital component ("**WPICC**"), being an additional capital requirement of with-profit funds; plus
- 145 per cent. of the Group Capital Resources Requirement less the WPICC.

Under Pillar 2 requirements, the PLHL ICA involves an assessment, on a Pillar 2 basis, of the capital resources and requirements arising from the obligations and risks which exist outside the Life Companies. Pillar 2 is based on a self-assessment methodology and calculates capital resources and requirements on an economic basis. The Group's Pillar 2 capital resources include the surplus over capital policy in the Life Companies, and the net assets of the Holding Companies less pension scheme obligations calculated on a Pillar 2 basis. The Group's Pillar 2 capital resource requirements relate to the risks arising outside of the Life Companies including those in relation to the Group's staff pension schemes, offset by Group diversification benefits. As agreed with the PRA, the Group aims to ensure that PLHL maintains capital resources of at least £150 million in excess of the Group's Pillar 2 capital resource requirements, which is known as the Group's PLHL ICA surplus. The Group is obliged to restrict discretionary payments out of PLHL to the extent required to maintain a PLHL ICA surplus of at least £150 million. As at 30 June 2014, the Group's PLHL ICA surplus was £1.0 billion, compared with £1.2 billion as at 31 December 2013 and £1.0 billion as at 31 December 2012. As at 30 September 2014, the Group's PLHL ICA surplus was estimated to be £0.7 billion. In accordance with PRA requirements, the Group undertakes an ICA at the level of the highest EEA level insurance group holding company, which is PLHL.

If payments out of PLHL are limited by any material deterioration in the Group's solvency surplus, either IGD, PLHL ICA, or by law, regulatory action or change in established approach, and in the event that the Group is unable to reschedule or restructure its current loans, refinance all or a portion of its debt or obtain additional equity, any of which may be impossible or available only on more unfavourable terms for the Group, this may impair the Group's ability to service its obligations under the Group's credit facilities or to pay dividends which in turn, could affect the ability of the Issuer to pay interest or principal under the Notes.

Since the acquisition of the Original Pearl Business by the Guarantor, the FSA (the Group's previous prudential regulator) required that £100 million of liquid assets are to be held at the level of Impala Holdings Limited and that £50 million of liquid assets are to be held at the level of PLHL in order to provide support to the Group's life and regulated service companies.

If payments out of PLHL are limited by fluctuations in investment markets or any law, regulatory action or change in established approach, this could have a material adverse effect on the Group's business, results, financial condition and prospects and may impact the Guarantor's ability to service its obligations under the Group's credit facilities and in turn, could affect the ability of the Issuer to pay interest or principal under the Notes (in particular, where payments have not been received from the Insurance Group Borrower under the Tier 2 On-Loan).

In addition, the Group has two principal service companies relating to its life assurance operations, PGMS, a former Resolution service company, and PGS, the former Pearl service company, each of which is regulated by the FCA. Service companies are categorised as 'Personal Investment Firms' ("**PIF**") and new prudential requirements were due to come into effect on 31 December 2013 in respect of PIFs, but have been delayed by two years. The new capital resources requirements for PIFs are now due to come into full force on 31 December 2017, with a transitional period commencing on 31 December 2015. The changes to the capital requirements for PIFs, as outlined in the FSA's Policy Statement PS 09/19, may have a material impact on both service companies and as a result, the wider Group. Any resultant inability to meet the Group's regulatory capital requirements in the longer term could lead to intervention by the FCA (or the PRA), which could be expected to require the Group to take steps to safeguard the interests of policyholders and other customers with a view to restoring regulatory capital to acceptable levels. If such intervention were to occur, this could have a material adverse effect on the Group's business, results, financial condition and prospects and may adversely impact creditors, including the Noteholders.

**If the legislation or regulation to which the Group is subject in relation to group capital is amended or interpreted and applied in a new way, the Group may have to retain more capital or, in the longer term, may not be able to meet its group capital requirements.**

For the Group, the IGD calculation and the PLHL ICA is performed at the PLHL level because PLHL is the ultimate insurance parent undertaking which is within the EEA (the Guarantor is resident in Jersey, a non-EEA country). If the Guarantor's head office were to be relocated to an EEA country or if the Guarantor were to be deemed to be resident in an EEA country, the IGD calculation and the ICA might need to be performed at the Guarantor level. In addition, the IGD calculation and the ICA calculation for the Group could also be required to be performed at the Guarantor level if: (i) the Group were to be supervised as if it were an EEA group pursuant to Solvency II (the main aspects of this framework are described in "*—Various new reforms to the legislation and regulation relating to the UK life insurance industry are being implemented that could adversely affect the Group*") or (ii) before Solvency II is implemented the legislation and rules regarding group capital were to be amended or interpreted in a new way. This would bring the liabilities to repay the Group's external bank debt and the Senior Bonds into the IGD calculation (which will become the "**group regulatory capital calculation**" under Solvency II) and as a result, the Group may have to retain significantly more capital or raise additional capital, which the Group may not have the ability to raise. As a result, the Group may not be able to meet its group capital requirements, which would have a material adverse effect on the Group's business, results, financial position and prospects which might in turn affect the ability of the Issuer to service payments of interest and repayments of principal on the Notes.

**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 (including, since Completion of the Divestment, Ignis Asset Management Limited ("Ignis Asset Management")) 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 the Group's investments) may be adversely affected by mismanagement of client assets or liabilities and the loss of key investment managers.**

As at 31 December 2013, Ignis Asset Management managed or provided oversight and advisory services for approximately 96 per cent. of the Group's assets. On Completion of the Divestment (as defined below), Ignis Asset Management became an entity outside the Group. The Group now relies predominantly on third party asset management firms outside the Group to manage its assets. Members of the Group enter into investment management agreements when they appoint third party asset management firms to manage the Group's assets, such as the Investment Management Agreements entered into with Ignis Investment Services Limited. 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 it 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 (including, since the Completion of the Divestment, Ignis Asset Management) 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 results, financial condition and prospects.

The performance of the third party asset management firms appointed by the Group (including, since the Completion of the Divestment, Ignis Asset Management) is 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.

**Defaults by trading counterparties and in relation to investments may adversely affect the Group.**

The Group is exposed to counterparty risk. Such counterparty risk may be caused by 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 trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements, 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.

In common with many insurance companies and other institutional investors, the Group engages in securities lending, or stock-lending, activities, whereby the Group loans equity and debt securities from its portfolios to counterparties that use the loaned securities in their securities trading activities. In securities lending transactions, the legal title of the loaned securities passes from the lender to the borrower. While the Group seeks to lend securities only to high-quality borrowers to minimise the possibility of default, and then only within pre-set credit limits for each borrower, borrowers may default on their securities-redelivery obligations to the Group due to bankruptcy, insolvency, lack of liquidity, operational failure, fraud, government intervention and other reasons. While the Group mitigates counterparty risk by requiring collateral to support the obligations of counterparties, there is a risk that the collateral obtained will not be sufficient or effective in all circumstances in order to protect against those risks.

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

Additionally, the underlying cash 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.

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

The Group has liabilities under annuities and other policies that are sensitive to future mortality and longevity rates. In particular, annuities are subject to the risk that annuity holders live longer, or longevity rates increase more, than was projected at the time their policies were issued, with the result that the issuing Life Company must continue paying out to the annuitants for longer than anticipated and, therefore, longer than was reflected in the price of the annuity. 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-insurance products.

The 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 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 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 Life Companies evaluate their liabilities allowing for changes in the assumptions used to establish their liabilities, as well as for the actual claims experience. Changes in assumptions may lead to changes in the level of capital that is required to be maintained. In the event that the Group's capital requirements are significantly increased, the amount of capital available for other business purposes, for distribution to Shareholders or to meet the Group's financing commitments (including the payment of principal and interest on the Notes and/or the Guarantee), will decline.

To the extent that actual mortality, longevity and morbidity rates or other insurance risk experience is 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 Life Companies in order to service and pay down debt or to finance distributions to shareholders of the Life Companies) and the ability of the Group to manage the 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. 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.

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 pensions 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.

**In times of extreme or prolonged market turbulence, the Life Companies may not have sufficient liquid assets to meet their payment obligations, which could have an adverse effect on them and the Group.**

As at 30 June 2014, 52 per cent. of the funds of the Life Companies were invested in government, supranational, corporate debt and other fixed income securities, 16 per cent. of the funds of the Life Companies were invested in cash and cash equivalents, 26 per cent. of the funds of the Life Companies were invested in equity securities, 3 per cent. of the funds of the Life Companies were directly invested in property, 2 per cent. of the funds of the Life

Companies were invested in repo loans and 1 per cent. of the funds of the Life Companies were invested in other investments. Although the Group has existing controls that aim to ensure the Life Companies have sufficient liquid resources to meet their payment obligations, any of them could be subject to a liquidity shortage or be impacted by having insufficient liquid assets to meet payment obligations in times of extreme or prolonged market turbulence, with potential material adverse consequences on the Life Companies affected and the wider Group.

Where the Life Companies consider reductions in liquidity to be due to reasons other than the increased possibility of an absolute loss or default of the underlying investments, a portion of the increased spread on such investments is added to the discount rate at which future policyholder liability cash flows are valued, resulting in a reduction in the value of such policyholder liabilities. In extreme circumstances, the Life Companies could be compelled to dispose of assets before the benefits of such "liquidity premiums" are realised. This would result in an upward reassessment of policyholder liabilities, with negative implications for the solvency of the impacted Life Company.

Decreases in prices of investment assets supporting policy liabilities may increase the incidence of policyholder complaints, the size of policyholder compensation payments, rates at which policyholders let their policies lapse and the rates at which policyholders redeem their policies before their maturity date. This could give rise to liquidity difficulties, especially where a high volume of surrenders coincides with a tightening of liquidity to the point where fund assets may have to be sold on disadvantageous terms to meet surrender requests. In addition, if a Life Company's assets are illiquid at such time, its ability to manage its asset allocation could be impeded, with potential material adverse consequences to that Life Company.

**Competition, regulatory restrictions and an inability to raise acquisition financing may make it difficult for the Group to grow by acquiring additional closed life fund companies and portfolios.**

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. Additionally, the Group's ability to obtain required regulatory consents from the FCA and PRA and other relevant regulatory authorities for acquisitions and fund mergers under Part VII of FSMA would depend on, amongst other things, the financial condition of the Group and the Life Companies, the financial implications of any acquisition on the Group, the impact of such implications on new and existing policyholders and wider risks to policyholder security as a result of the financial condition of the Group.

There are other closed life fund consolidators as well as a number of other potential purchasers, including other insurance companies, banks, hedge funds and private equity firms. This may result in increased competition (and therefore prices paid) for acquisitions of closed life companies. 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.

If the Group is unable to acquire additional closed life fund companies and portfolios in line with its strategy in the medium term this could have a material adverse effect on the Group's business, results, financial condition and prospects.

**The Divestment of Ignis Asset Management 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 (the "**Divestment**"). 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, the Guarantor agreed with Standard Life Investments that it will guarantee the payment obligations of Impala under the Divestment 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 its results of operations, cash flow and financial condition.

Under the Divestment Agreement, Standard Life Investments acquired the entire issued share capital of Ignis Asset Management from Impala in return for £390 million in cash consideration, subject to certain post-Completion price adjustments, including the offsetting of amounts which the Group may have to pay under the terms of the Divestment against the benefit of Ignis Asset Management's earnings to Completion. A payment of £5.5 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 has agreed to a purchase price adjustment in the event that assets held by the 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 Life Companies (and Opal Reassurance Limited) and 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 respect of any purchase price adjustment.

The Investment Management Agreements between the 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 Divestment Agreement, Impala has agreed to a Purchase Price Adjustment for a period of 10 years if a Life Company withdraws assets from management by Ignis Asset Management or any of its subsidiaries under an Investment Management Agreement, subject to certain exceptions.

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.

The price adjustment mechanism could result in Impala incurring a cost which would need to be funded from its internal cash resources from time to time. In addition, the Group will hold capital against its potential liabilities under the price adjustment mechanism in its PLHL ICA calculation. Any adjustments to the purchase price or any increased capital requirements in relation to the price adjustment mechanism may reduce the amount available to be paid out of the Group. Any reductions in the Guarantor's cash resources and any increased capital requirements in relation to the price adjustment mechanism following a decision by a Life Company (or Opal Reassurance Limited) to withdraw assets from management by Ignis Investment Services Limited or another Standard Life Investments group asset manager, could potentially reduce the Guarantor's cash resources and/or have an adverse effect on its financial condition.

### Future acquisitions and disposals could have an adverse effect on the Group.

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 from acquisitions;
- distraction of management from existing businesses;
- unexpected losses of key employees of the acquired business;
- difficulties repaying acquisition and related financing costs; and
- changing the structure of the Group which may result in a reduction in brought forward tax losses.

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 will require the consent of the FCA and PRA and other relevant regulatory authorities as well as the consent of the Group's bank lenders and there can be no assurance that the Group would be able to obtain such consents. For further information on the restrictions placed on the Group under the Facilities Agreement, see "*Description of Certain Other Indebtedness—The Facilities Agreement*". 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 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.

**The Group's business is subject to risks arising from economic conditions in the UK and other markets in which it operates or in which its and its policyholders' investments are invested and from risks arising from the continuing global economic weakness, such as those associated with the Eurozone crisis.**

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 UK, in which the Group's earnings are predominantly generated and in which its and its policyholders' investments are predominantly invested. Although 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 Group's financial position, including its embedded value, its capital requirements and its results. Substantial decreases in the value of investments could lead to shareholder capital of the Life Companies being required to meet obligations to policyholders and regulatory capital requirements and could restrict the ability of the Life Companies to distribute dividends or release capital to service or pay down debt or to distribute to their shareholders, including the Guarantor, which in turn may restrict the Guarantor's ability to make payments in respect of the Notes and the Guarantee. Decreases in the value of investments could also require further capital to be held to cover pension scheme obligations.

In addition, in the event of a failure of a market participant, under the Financial Services Compensation Scheme ("**FSCS**"), the Group could be required to make contributions to compensate investors. For further information on the FSCS, see "*Regulatory Overview—Regulation Applicable to the Group's Insurance Business—The Financial Services Compensation Scheme*".

The global economy and financial system have suffered considerable turbulence and uncertainty since 2007 and 2008. Expectations concerning the performance of the global economy in the short to medium term remain uncertain. Furthermore, the global financial system has not yet overcome the difficulties that began in late 2008, when the first of several leading international financial institutions was declared insolvent. In addition, there can be no assurance that any recovery in certain markets may be sustained and significant uncertainty remains in relation to risk appetite and markets may continue to experience significant volatility. The dislocation of global financial markets significantly impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK government and other governments to inject liquidity into the financial system and to require (and participate in) the recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market. Although the impact of the crisis on insurers has not resulted in as many failures as in the banking sector, regulators have, following the crisis, signalled a need for insurers to hold high quality capital.

Despite this intervention, the volatility and market disruption in the financial sector has continued. This market dislocation has been accompanied by recessionary conditions in many economies throughout the world, including the UK. Whilst the widespread and severe effects of the global financial crisis on economies throughout the world (including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, commodity markets, attitude to counterparty risk, consumer prices, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets, market interest rates and market inflation rates) have reduced, further volatility in financial markets could adversely affect the Group's profitability, lead to lower asset and other realisations and increase negative fair value adjustments and impairments of investments and other assets. There can be no assurance of a return to consistent and sustained economic growth or that there will not be further significant deteriorations or pronounced volatility in the UK and other economies to which the Group is exposed. Moreover, future economic growth may be modest for some time and may be insufficient to prevent unemployment rising further. The rate at which deterioration of the global and UK economies has occurred has proven very difficult to predict, as will be the timing and extent of any further deterioration or any recovery.

The exact impact of market risks faced by the Group is thus difficult to predict and guard against in view of (i) the severity of the Eurozone sovereign debt and credit crisis, (ii) difficulties in predicting the rate at which any further 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.

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

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

As at 30 June 2014, 52 per cent. of the funds of the Life Companies were invested in government, supranational, corporate debt and other fixed income securities, 16 per cent. of the funds of the Life Companies were invested in cash and cash equivalents, 26 per cent. of the funds of the Life Companies were invested in equity securities, 3 per cent. of the funds of the Life Companies were directly invested in property, 2 per cent. of the funds of the Life Companies were invested in repo loans and 1 per cent. of the funds of the Life Companies were invested in other investments. Although 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 Life Companies being retained or shareholder capital available within the Group being required to be injected into the 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.

Partly as a result of the ongoing adverse economic conditions discussed above, a number of countries currently have high levels of sovereign indebtedness. Concern over the ability of certain countries to service their sovereign indebtedness has resulted in an increase in the yield on new sovereign debt issued by certain countries which, in turn, has reduced the trading prices of their existing issued sovereign debt. To the extent that these concerns persist or worsen, yields on sovereign debt could rise and trading prices could fall further. In addition, there is a risk that certain countries default on their sovereign indebtedness or adopt inflationary policies which seek to reduce their real levels of indebtedness. Any of these factors could adversely affect the value of the Group's sovereign debt holdings.

Certain of the Group's with-profit policies and a small number of the Group's unit linked policies offer guaranteed benefits. These policies increase the Group's financial exposure to declines in equity markets. The Group has implemented hedging arrangements which seek to protect it to an extent against declines in equity markets but not all exposure is hedged and it may not be possible or feasible to hedge such exposure in the future. To the extent that these exposures have not been hedged, declines in equity markets may result in the need to devote significant additional capital to support these policies.

Certain assets held by the Group, such as swaps, swaptions and other derivatives, move in line with swap yields whereas the Group's liabilities generally move in line with gilt yields. A change in the relative swap yields versus gilt yields could have an adverse effect on the Group's capital position and its embedded value. The Group has implemented hedging arrangements which seek to protect it to an extent against this potential change in relative yields but not all exposure is hedged and it may not be possible or feasible to hedge such exposure in the future. It is expected that under Solvency II the primary driver of the Group's liabilities will change to swap yields rather than gilt yields which would mean that the margin between swap yields and gilts yields could become a key driver in changes to the Group's capital position.

The expected change to this key driver of the liabilities adds a further risk for the Group as it may be desirable to hedge gilts to swaps at an inopportune time leading to additional costs.

Any significant declines in equity markets, debt markets (including for sovereign debt) or property prices, or significant movements in swap yields relative to gilt yields, could 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 and inflation rates.

The Group's exposure to interest rate and inflation risks relates primarily to the variability of market prices and cash flow 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 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.

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 could materially decrease the amount of distributions from the Group's with-profit funds which are available to policyholders or Shareholders, and this could have a material adverse effect on the Group's business, results, financial condition and prospects.

On 23 July 2014, the Group entered into the Facilities Agreement. The Facilities Agreement comprises a £450 million revolving credit facility and a £450 million amortising term loan, all of which bears a floating rate of interest. Increases in interest rates, to the extent not successfully hedged, may lead to material increases in the

Group's interest payments, which could have a material adverse effect on the Group's business, results, financial condition and prospects.

Due to the long-term nature of the liabilities of the Life Companies, sustained declines in long-term 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.

**The Group faces exposure to currency risks.**

Certain of the Group's companies have exposure to financial assets that are not denominated in sterling. Although the Group aims substantially to limit the foreign exchange exposure of its financial assets, the Group's operations are subject to currency transaction risks from assets in circumstances where the currency risk is imperfectly hedged. These risks are heightened by turbulence in financial markets, including the recent Eurozone sovereign debt and credit crisis which caused increased currency volatility and has raised a number of uncertainties regarding the stability and overall standing of the euro.

The Group is also exposed to foreign currency translation risk. The Group's consolidated financial statements are stated in sterling, whereas the revenues and expenses of parts of the Group's operations are earned and paid, and assets and liabilities held, in currencies other than sterling. Foreign currency amounts are translated into sterling at the applicable exchange rates for inclusion in the Group's consolidated financial statements. The exchange rate between these currencies and sterling can fluctuate substantially.

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

**If the Group's businesses do not perform in accordance with expectations, the Group may be required under IFRS to recognise an impairment of its goodwill or its present value of acquired in-force assets or to write down its deferred tax assets, or it may be unable to use tax relief to offset tax on profits, any of which could have an adverse effect on the Group.**

The Group's results and financial position are consolidated in the Group's financial statements in accordance with IFRS. Upon the acquisition of subsidiaries and other businesses, the Group is required under IFRS to recognise any goodwill or other intangible assets, including the present value of in-force ("**PVIF**") business arising upon such acquisition. Goodwill represents the excess of the amounts the Group paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Insurance and investment contracts liabilities acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts is recognised as PVIF and is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

Under IFRS, the Group tests goodwill at least annually for impairment. For PVIF an impairment review is performed whenever there is an indicator of impairment. PVIF is also considered in the liability adequacy test for each reporting period. Impairment testing is performed based upon estimates of the value in use of the "**cash generating unit**" to which the assets relate. The cash generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows or other assets or groups thereof. The value in use of the cash generating unit is impacted by the performance of the business and could be adversely impacted by any efforts made by the Group to limit risk. If it is determined that goodwill or PVIF assets have been impaired, the Group will be required to write-down the goodwill or PVIF assets under IFRS by the amount of the impairment, with a corresponding charge to net income.

In addition, value is placed in the Group's MCEV on tax relief arising from the Group's financing. Existing tax attributes, such as brought forward tax losses, are also valued in the Group's IFRS accounts, MCEV and Pillar 2 valuations. The valuation of tax attributes in both MCEV and IFRS depends on, in particular, the Group's businesses generating profits against which the tax relief can be offset. If the Group's businesses do not perform in accordance with expectations, full value may not be obtained in respect of this tax relief, which could affect the net income and cash flows within the Group and the Group's ability to recognise deferred tax assets on its IFRS, MCEV and Pillar 2 balance sheet.

Such write-downs of goodwill or PVIF assets or the inability to use tax relief could have a material adverse effect on the Group's business, results, financial condition and prospects.

**The Group's valuations of many of its financial instruments include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations.**

As at 30 June 2014, the Group held 63 per cent. of its financial assets and investment property at fair value as debt securities, 25 per cent. of its financial assets and investment property at fair value as equity securities, 4 per cent. of its financial assets and investment property at fair value as holdings in collective investment schemes, 3 per cent. of its financial assets and investment property at fair value as holdings in investment property and 2 per cent. of its financial assets and investment property at fair value as derivatives, in its consolidated financial statements. 3 per cent. of the Group's financial assets and investment property carried at fair value were held as "Level 3 financial instruments" as at 30 June 2014, which is the category that, under IFRS, relies the most on management estimates. As at 30 June 2014, the Group had derivative assets of £1,349 million and derivative liabilities of £1,616 million, of which no assets and 0.3 per cent. of liabilities are level 3 financial instruments. Determination of fair values 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 cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of rapidly widening credit spreads or illiquidity, it has been, and will likely continue to be, difficult to value certain of the Group's investments, particularly if trading becomes less frequent or reliable market data becomes unavailable, as has occurred in certain markets in recent years. As such, valuations may include inputs and assumptions that are less observable or require greater estimation thereby resulting in values which may differ materially from the values at which the investments may be ultimately sold or realised. Further, rapidly changing credit and equity market conditions could materially impact the reported valuation of the Group's securities and the period-to-period changes in value could vary significantly. The Group may have, in assessing the fair value of its assets, overvalued or undervalued some of those assets, which could result in it having managed those assets less efficiently than it would have otherwise or, in the case of assets that have been overvalued, result in those assets being written down in the future following sale or revaluation. Either of these could have a material adverse effect 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 Life Companies, by their nature, are in long-term run-off. 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 adjust to an appropriate new balance of fixed and variable costs. This exposure could arise, for example, from deficient management, contractual restrictions, significant changes in the regulatory environment, material sector-specific inflationary pressures or an unexpected increase in policy lapses. The current expense assumptions for policy charges are based on anticipated governance costs and the underlying administration services contracts, whether with intra-group or external providers, and these assumptions may prove incorrect. An inability to adjust costs in line with the run-off profile of the Group's funds could therefore have a material adverse effect on the Group's business, results, prospects and financial condition.

**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, UK life insurance companies (including the Life Companies within the Group) sold pension contracts that contained certain guarantees or options, including guaranteed annuity options ("**GAOs**") 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, average interest and inflation rates have been lower and life expectancy has increased more rapidly than originally anticipated. As a result, the guaranteed rate applicable to these contracts in many cases is more favourable than annuity rates currently available in the market. There has been significant market concern in recent years as to the implications of such guarantees and options for reserving and bonus declarations.

The 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 or feasible 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 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.

The Group's business, results, financial condition and prospects may be materially adversely affected if such liabilities are significantly increased.

**The Group may be adversely affected by 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. In addition, the unavailability, adverse pricing and/or inadequacy of reinsurance arrangements may adversely affect the Group.**

As an insurer, the Group, through reinsurance with third parties, seeks to reduce the losses that may arise from insurance risk (and, in particular, in relation to the 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 arrangements in relation to the Life Companies. Under these arrangements, reinsurers assume all or a portion of the costs, losses and expenses associated with the reinsured policies' claims and reported and unreported losses in exchange for a premium, or as part of a sale arrangement. However, the Group's Life Companies remain liable as the direct insurer (or reinsurer) on all risks reinsured (or retroceded). Consequently, ceded reinsurance arrangements do not eliminate the Group companies' obligation to pay claims, and the Group's companies are subject to reinsurer credit risk with respect to their ability to recover amounts due from reinsurers. While the Group regularly evaluates 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 their 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.

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.

**Various new reforms to the legislation and regulation relating to the UK life insurance industry are being implemented that could adversely affect the Group.**

The European Commission is finalising the new Solvency II prudential framework for insurance companies and insurance group companies. This framework, which is due to be implemented in full on 1 January 2016, will update, among other things, the existing EU life, non-life, reinsurance and insurance groups directives. For further discussion of Solvency II, see "*Regulatory Overview— Regulation Applicable to the Group's Insurance Business — Solvency II*".

The Solvency II directive containing the outlines of the above regime was formally adopted in November 2009. Due to ongoing development of the proposals and the entry into force of the Lisbon Treaty, a series of amendments to the original Solvency II directive and the other legislations were developed in a directive known as the Omnibus II directive. The European Parliament voted to adopt the final version of the Omnibus II directive on 11 March 2014 and the European Council adopted the Omnibus II directive on 14 April 2014. This final text will enable guidance at level 3 of the regulatory rule-making process and more detailed level 2 rules and non-binding standards. The detail in the final text may introduce further changes that are not currently anticipated.

The FSA published a discussion paper in September 2008 and a feedback statement setting out its expectations as to how firms should prepare for the transition to the new regime. This has been followed up by further publications including the three planned consultations on the transposition of the Solvency II directive – Consultation Paper 11/22 "*Transposition of Solvency II Part 1*", Consultation Paper 12/13 "*Transposition of Solvency II Part 2*" and Consultation Paper 16/14 *"Transposition of Solvency II Part 3"*. A further consultation on the transposition of the Solvency II directive – Consultation Paper 24/14 *"Solvency II: further measures for implementation"* was published by the PRA in November 2014. HM Treasury published its consultation on the proposed amendments to make UK legislation consistent with Solvency II, "*Consultation on Solvency II*" in November 2011.

The final draft of the (Level 2) Delegated Acts was adopted by the European Commission on 10 October 2014 and published in the Official Journal on 17 January 2015. The (Level 2) Delegated Acts entered into force on 18 January 2015.

On 27 September 2013, the European Insurance and Occupational Pensions Authority ("**EIOPA**") published preparatory guidelines on preparations for the implementation of Solvency II. In response to those EIOPA preparatory guidelines, the PRA published a supervisory statement entitled "Solvency II: applying EIOPA's preparatory guidelines to PRA-authorised firms" on 12 December 2013. The EIOPA preparatory guidelines and the

PRA supervisory statement principally reflect good practice in the process of preparing for Solvency II and do not present significant additional burdens. On 30 April 2014, EIOPA published technical specifications for the preparatory phase. These were drafted to reflect the content of the Directive 138/2009/EC, any amendments agreed to it by the Omnibus II directive, the working documents at the time of the (Level 2) Delegated Acts and the working document of the (Level 3) guidelines.

The Group is actively monitoring proposals as they develop and participates in feedback provided from the industry to the regulators. The Directors expect Solvency II to result in an improved understanding of the link between risk and capital management and welcome the increased focus on risk management that Solvency II will bring. The Group is involved with the Association of British Insurers and other UK insurers through membership of Solvency II working groups with a view to ensuring that the final technical specifications are appropriate for the UK insurance market.

There remains considerable uncertainty regarding the overall financial impact of Solvency II on the Guarantor.

The Solvency II framework includes a new regime for insurance groups and specific provision for supervision of groups in which the parent has its head office outside the EEA. This applies to the Guarantor, as its head office is in Jersey, which is outside the EEA. The treatment of such groups by the Solvency II regime depends on whether the jurisdiction in which the parent has its head office is determined to have an equivalent regime to the Solvency II regime. Jersey is not currently seeking to be treated as equivalent. In such circumstances, the Group could be required to apply the Solvency II regime at the level of the Guarantor unless the PRA, in exercise of a discretion under the Solvency II directive, elects to adopt "other methods" to ensure appropriate group supervision, which may include regulation at the level of a sub-group within the EEA. The Group expects to seek continuation of the current position whereby capital is calculated at the EEA parent level (i.e. PLHL) but confirmation that this will be maintained has not currently been obtained. If such confirmation cannot be obtained, the Group may be supervised as if it were subject to the Solvency II regime. This could, among other things, result in the group regulatory capital calculation under Solvency II having to be performed at the Guarantor level. The assessment at Guarantor level would bring into account a contribution to group capital adequacy from Opal Re, which is a subsidiary of the Guarantor but which does not fall within the group of companies owned by PLHL. However, it could also bring the Group's external bank debt and borrowings into the calculation and remove capital instruments which currently qualify for the EEA parent level calculation. As a result, the Group's solvency excess may be lower or the Group may not be able to meet its group capital requirements without restructuring or raising capital. Furthermore, the Group's leverage currently has a positive effect on the Group's embedded value through the beneficial impact of the tax deductibility of interest. If any such restructuring led to a significant reduction in its indebtedness this may have an adverse impact on the Group's embedded value as a consequence of higher tax payments than currently projected by the Group.

The Group notes that the technical specifications are likely to result in a significant increase in the capital requirements of the Life Companies and may result in a significant increase in the capital requirements of the Insurance Group. However, the Group expects the increase in capital requirements to be mitigated to an extent by the introduction of transitional provisions, included in the Omnibus II directive, which are designed to ensure a smooth transition to the new regime. However, there remains uncertainty regarding the technical application and the quantum of these provisions, for which approval by the PRA will be required. The PRA has indicated that it expects to issue a consultation paper on transitional provisions in January 2015.

The financial impact of the transitional provisions is highly dependent on the application of the technical methodology required by the PRA's final rules to be published following the consultation. If the methodology requirements for the transition lead to fewer transitional measures or lower levels of relief or the timing for certain aspects of the transition adopted by the PRA or the transitional provisions and their consequences for the Group are otherwise adverse, it may have an adverse impact on the Group's surplus Solvency II capital position and on future cash flows to and from the Life Companies, PLHL, the Issuer and the Guarantor.

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. 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. The PRA is operating a "pre-application" process, under which the PRA reviews a firm's internal model so that any shortfalls may be identified and rectified ahead of a formal application for approval under the Solvency II rules, which may be made after 1 April 2015. The Governor of the Bank of England reinforced in a September 2014 speech that the PRA would not hesitate to refuse approval for opaque or inadequate models, noting that poorly designed models would not be acceptable. There is a risk that the Group may be required to strengthen the methodology or assumptions underlying its internal model, thereby increasing the capital requirements relating to the Insurance Group, as part of the approval process. Alternatively, the Group may be required to adopt a partial internal model or to use the standard formula. In either case, the PRA may impose capital add-ons if it considers that the resultant capital requirement does not reflect the risk exposures of the firm.

In addition, in the UK, the FCA (and to some extent, the PRA) has based its overall approach to supervision on a number of principles, which set the standards by which regulated firms must conduct business. In terms of compliance, there is a greater need for regulated firms, such as the Group, to make qualitative judgments for themselves and to integrate their compliance and business processes. Firms are expected to use the principles to form an ethical business culture, which is intended to ensure that any gaps in the rules-based regime are dealt with.

The FSA responded to the onset and development of the financial crisis in the summer of 2007 and mid 2008, and the financial problems experienced by a number of financial institutions, by announcing a more intensive and intrusive regulatory approach. Since 1 April 2013, when the FSA was split into the PRA covering prudential matters and the FCA covering conduct matters (the "**twin peaks model**"), the regulators have continued to follow the FSA's approach, by adopting a more aggressive enforcement approach with a view to achieving credible deterrence. This may result in an increased risk of regulatory intervention in the business of the Group, including the attribution or distribution of its funds.

On 19 March 2014, the Chancellor of the Exchequer announced plans for wide-ranging reforms of UK pensions legislation, including an intention to cease the requirement for pension benefits to be taken in the form of an annuity and for customers to receive guidance on their options at the time of retirement. This may lead to a reduction in the amount of vesting annuity business retained by the Group.

In addition, on 27 March 2014, the Government announced a fee cap for all workplace pension schemes for auto-enrolment. The Group has estimated that if a 0.75 per cent. cap was applied to all active workplace pensions operated by the Group, the impact on Group MCEV would be estimated to be a maximum of £40 million reduction in Group MCEV.

On 11 December 2014, the FCA published the findings of its thematic review into annuity sales practices and the interim findings of a market study into retirement income. 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. This is likely to lead to some reform in the regulation around those communications and further investigations or mandatory reviews by insurers of their prior practices.

Following the publication of articles in the UK press on 28 March 2014, the FCA confirmed its intention to perform a review of the fair treatment of long standing or legacy customers in the life assurance industry. The FCA has made it clear that this review will not consider the suitability of historic advice nor will it require a review of individual policies. The Group continues to cooperate with the FCA concerning their thematic review into the 'Fair Treatment of Long-Standing Customers of Life Insurers' and the Group currently expects this thematic review to be concluded during the course of 2015. The Group believes that any changes which result from this thematic review would be applied industry-wide. Any requirement to reduce policy charges could have an adverse impact on the profitability of the affected products. However, the Group is confident that its historic charging structures, including exit charges, have been compliant and in accordance with its commitments to its policyholders. In addition, any investigation into the cross-subsidisation between new and legacy policyholders is not relevant to the Group as it operates a closed life fund business model.

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

**The Group is subject to ongoing regulatory supervision and to potential FCA and PRA (and other regulator) intervention on industry-wide issues and to other specific investigations, reports and reviews relating to the Group.**

During 2012, the FSA undertook an "Advanced Risk Responsive Operating Framework" ("**ARROW**") review and a series of Financial Risk Reviews of the Group. ARROW was the primary means by which the then FSA assessed the risks to its statutory objectives posed by regulated entities. The outcome of the ARROW review and the Financial Risk Reviews of the Group was encapsulated in a Risk Mitigation Programme on the Group which was provided to the Guarantor.

The FCA and PRA have replaced the ARROW assessment process with new supervisory regimes. As part of this, the FCA and PRA, in carrying out their supervisory roles, may undertake, or procure, other reviews or processes (including skilled persons reports under section 166 of FSMA) in respect of authorised firms, including in respect of the Group. The FCA and PRA have indicated a move to more intensive supervision and that the incidence of the use of such reviews and processes is likely to increase. The Group has been and expects to be subject to such reviews or processes from time to time. The outcomes of such reviews and processes may range from no action being required, through recommendations for actions by the Group to enforcement action and public censure.

From time to time, there are issues and disputes that arise from the way in which the insurance industry has, for example, sold or administered an insurance policy or otherwise treated policyholders, either individually or collectively. Typically, for individual policyholders, these issues and disputes are resolved by the UK Financial Ombudsman Service (the "**FOS**"), the equivalent non-UK body or by litigation. However, where larger groups or matters of public policy are concerned, the FCA and PRA or a non-UK regulator may intervene directly.

For example, prior to April 2013, the FSA intervened directly in industry-wide issues, such as the sale of personal pensions, the sale of mortgage-related endowments, the Treating Customers Fairly ("**TCF**") initiative and investments in split capital investment trusts. By way of example, the TCF initiative has been an increasing focus of the FSA (and now the FCA) activity in recent years. In response to high-profile regulatory failures and a perceived divergence between the sophistication of financial products and the financial literacy of consumers, the FCA has increased its emphasis on the need for consumer protection. In particular, the FCA has stated that its approach to TCF will be governed by high-level principles rather than a strict interpretation of the FCA rules. Consequently, the failure by a financial services firm to implement a TCF policy aligned with the FCA's approach and to develop its TCF policy in response to changes in the FCA's approach, may lead to enforcement action by the FCA. Assertions by policyholders that their interests have been adversely affected by actions taken by the Group, or that they have otherwise been treated unfairly, may also lead to enforcement action by the FCA.

The FCA and PRA may identify future industry-wide mis-selling or other issues or engage in other reviews that could affect the Group such as reviewing its approach to the basis or timing of distribution of closed life funds, the attribution and/or distribution of surplus assets or the extent to which the administration of products match the terms originally indicated to policyholders at purchase. This may lead from time to time to:

- significant direct costs or liabilities for the Life Companies; and
- changes in the Group's practices which benefit policyholders at a potential cost to Noteholders.

In addition to the FCA and PRA, certain of the Life Companies are regulated in foreign jurisdictions resulting in potential policyholder claims and regulatory intervention in those jurisdictions on a similar basis in respect of non-UK regulations.

The FOS exists to resolve disputes involving individual or small business policyholder disputes. While decisions are not currently made public, applicants may pursue customary legal remedies if decisions of the FOS are considered unacceptable. From time to time, decisions taken by the FOS 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. In addition to the FOS, certain of the Life Companies are subject to foreign regulation and may fall under the jurisdiction of a non-UK body similar to the FOS.

In addition to the Group proactively changing its practices and procedures in response to industry-wide developments and trends, reports, reviews, interventions and investigations by the FCA, PRA, FOS and other regulators and bodies such as those described above, whether relating to the Group specifically or to the industry generally, could disrupt the Group's ability to operate its business, could increase compliance costs or restrict the Group's ability to extract projected cash flows from the Life Companies, and could as a result or more generally have a material adverse effect on the Group's business, results, financial condition and prospects.

In addition enforcement action taken by the FCA and/or PRA, which could include the imposition of fines, public censure or the withdrawal or variation of permission to undertake regulated activities, either alone or together with any consequential reputational damage, could have a material adverse effect on the Group's business, results, financial condition and prospects.

**If the legislation or regulation to which Group companies are subject in a wide range of areas and in a wide range of jurisdictions are amended or interpreted and applied in a new way, the Group may be adversely affected.**

The legislation and regulation affecting members of the Group governs matters with respect to a wide range of areas and in a wide range of jurisdictions. In particular, Group companies are subject to applicable law and regulation, both within the UK (principally by the FCA and PRA) and internationally in Hong Kong, Ireland, Guernsey and Jersey and to applicable laws in the US. Certain Group companies are also subject to applicable law in the Cayman Islands. The FCA and PRA are the principal regulators in respect of regulated companies in the UK although other regulators have powers and responsibilities that may affect the Group's operations within the other jurisdictions listed above. In particular, Opal Re, a Group company and reinsurer for certain of the Life Companies, is subject to regulation under the laws of Bermuda and the rules of the Bermuda Monetary Authority (the "**BMA**").

The Group's activities and strategies are based upon prevailing law and regulation. Changes in, and differing interpretation and application of, law and regulation could have a detrimental effect on the Group, including through the imposition of additional compliance costs. Changes in governmental policy, such as in relation to government pension arrangements and policies, could also have an adverse impact on the Group.

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

**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 their 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-UK regulators will not approve acquisitions or intragroup 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; and
- adversely affecting the Group's ability to obtain reinsurance or to obtain reasonable pricing on reinsurance.

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, runs 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.

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

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 in the future need to change the basis under which it reports its embedded value.**

European-listed life insurance companies generally publish embedded value information to supplement their financial information prepared in accordance with IFRS. The Group, as well as most European-listed insurance companies, looks to principles or guidelines adopted by the European Insurance CFO Forum (the "**CFO Forum**") for guidance in reporting embedded value. The Group will keep under review its approach to the embedded value reporting. If the Group follows any new principles promulgated by the CFO Forum or in the context of Solvency II, this may result in a restatement of reported embedded value results and change the reporting basis of future results. Accordingly, future reported embedded value information may be materially different, or may be prepared in a materially different manner, than the information contained in this Prospectus. The extent to which the Group currently complies with the CFO Forum's MCEV Principles (as defined below) is set out in the notes to the MCEV supplementary information incorporated by reference into this Prospectus.

**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. 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 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.

**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 (including the matters discussed in: "*General Information*"), in respect of which monetary damages are sometimes sought. 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. Any of the above could have a material adverse effect on the Group's business, results, financial condition and prospects.

**Changes in accounting standards and other assumptions driven by experience and estimates 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.**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. Where the Group has a present legal or constructive obligation, 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 their 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.

**The Group has a number of significant change programmes underway across its life business. If the Group is unable to manage the level of change efficiently and effectively there is a risk of a material adverse effect on the Group's business, results, financial position and profits.**

The Group has announced a number of significant restructuring programmes. These include changes required in preparation for the Solvency II prudential framework and the outsourcing by Phoenix Life of investment administration, fund accounting, custody services and other related back office administration services to HSBC

Bank plc ("**HSBC**"). Completion of the Divestment on 1 July 2014 and the entry into a strategic asset management alliance with Standard Life Investments represent a significant transformation for the Group.

During this period of change there is a risk that the Group's framework of control, compliance and risk management may be weakened which could have a material adverse effect on the Group's business, results, financial conditions and prospects.

**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 pension fund assets is not sufficient to cover future obligations under the schemes.**

The Group operates several different pension schemes. The two main pension schemes are the pension scheme covering the past and present employees of the Group prior to the acquisition of the Resolution Group (the "**Pearl Group Staff Pension Scheme**") and the pension scheme covering the past and present employees of Impala's subsidiaries (the "**PGL Pension Scheme**"). Each of those two schemes has both defined benefit and defined contribution sections. The defined benefit sections of each scheme are closed to new entrants and contain no active members. Further information on the schemes is given at "*General Information—Material Contracts of the Guarantor—Pearl Group Staff Pension Scheme Agreements*".

If the pension schemes were to be wound up the relevant employing companies would be responsible, under section 75 of the UK Pensions Act 1995, for funding the pension schemes up to the level of the cost of buying out the benefits for all scheme members with an insurer. This cost would be considerably more than the value placed on the liabilities while the schemes are ongoing.

Funding obligations (on a share of the buy-out basis) can also arise under section 75 of the UK Pensions Act 1995 if an employer ceases to participate in the pension schemes (e.g. on a corporate disposal) while another employer continues to participate. Unless an alternative arrangement is agreed with the pension trustees, any such section 75 debt would be by reference to the ceasing employer's share of the total buy-out debt. The scale of any such section 75 debt may restrict the ability of the Group to enter into business disposals involving employers participating in the defined benefit pension schemes.

The pension schemes' trustees are required to undertake triennial valuations of the schemes and agree with the Group statutory funding plans, although the trustees are free to call for a further valuation on an earlier date if they see fit. The interaction of, among other things, increased life expectancy, poorly-performing equity markets and low interest rates over the past several years has had a significant negative impact on the funding levels of the Group's pension schemes. This has materially increased the Group's funding obligations in respect of the pension schemes. 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.

The most recent triennial valuation for each scheme was performed as at 30 June 2012. The Pearl Group Staff Pension Scheme deficit was £480 million as at 30 June 2012, on the agreed technical provisions basis. The PGL Pension Scheme deficit was £39 million as at 30 June 2012, on the agreed technical provisions basis. The trustees of the of the Pearl Group Staff Pension Scheme and PGH2 entered into the 2012 Pensions Agreement on 27 November 2012 under which the trustees agreed the technical provisions basis to be used for the 30 June 2012 valuation and have agreed the contributions payable to the scheme following completion of that valuation as set out in the 2012 Pensions Agreement. The key terms of the 2012 Pensions Agreement are summarised at "*General Information—Material Contracts of the Guarantor—Pearl Group Staff Pension Scheme Agreements*". The trustees of the PGL Pension Scheme and Pearl Group Holdings (No. 1) Limited ("**PGH1**") have agreed that PGH1 will pay contributions of £1.25 million per month until August 2017.

The PGL Pension Scheme entered into a longevity insurance contract with Phoenix Life Limited ("**PLL**") on 4 June 2014, covering longevity risk on pensioner members in payment as at 31 December 2013. The PGL Pension Scheme pays a regular premium to PLL, and in return PLL pays the members' benefits.

The Pensions Regulator has statutory powers in some circumstances to require persons connected or associated with an employer (such as other companies within the Group) to contribute to or otherwise support the pension schemes. 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.

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

**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, 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 customer, 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, and subject to similar disruptions from unauthorised tampering. In addition, the Group is also 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 Life Companies' businesses, accurate records have to be maintained for significant periods.

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

**Changes in taxation law may adversely impact the Group.**

UK 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 accurately the impact of future changes in UK and overseas tax law on its business. From time to time, changes in the interpretation of existing UK 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 UK 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.

UK and overseas legislation governs the taxation of life companies and changes to this legislation might adversely affect the Group. A new tax regime for life companies (introduced in the UK Finance Act 2012) came into effect on 1 January 2013, and has moved from regulatory surplus to IFRS accounting profit as the basis of taxation for life companies. Transition to the new rules has not resulted in a material impact on the Life Companies' tax position. However, there are features of the new rules which could increase the volatility of the cash tax payable by the Group.

The UK Government has announced that it will make changes to the taxation of loan relationships and derivatives contracts and has also announced powers for HMRC to propose legislation to facilitate changes in relation to the tax treatment of Solvency II compliant capital instruments. In addition, the Organisation for Economic Co-operation and Development has issued certain proposals regarding Base Erosion and Profit Shifting (BEPS), and further proposals are anticipated. The UK Government is currently consulting on one of those proposals in relation to the use of hybrid capital and changes in law may be made to address this and other aspects of the BEPS proposals. Draft legislation has not yet been published. The nature of any changes, and therefore their potential impact on the Group, is not yet fully known. However, it is possible that certain of these changes to these rules could affect the ability of the Group to obtain tax value for its interest costs, which could have an 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 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 long-term funds of the relevant Group companies in which the business was written and therefore have a material negative impact on policyholder and Group 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 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.

VAT is currently reduced or not charged on services under the outsourced services agreements on the basis that the services are exempt under the insurance intermediaries' exemption. However, this is subject to possible change. The European Commission has adopted proposals for a directive and regulation that would change the existing rules in relation to the insurance intermediaries' exemption, and these now need to be agreed unanimously by the EU Member States, after consultation by the European Parliament. While it is considered likely that the existing insurance intermediaries' exemption will be changed, it is not currently possible to predict with any accuracy when the changes are likely to be agreed, how the changes will be implemented in UK law nor whether HMRC will change its practice prior to such changes coming into effect. If any such changes are effected, this may lead to the conclusion that 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.

**If the Guarantor were to become resident in the UK for tax purposes, this could have an adverse effect and affect the basis for the IGD, PLHL ICA and Solvency II calculations.**

The tax treatment of the Guarantor depends on where it is resident for tax purposes. Since the Guarantor is not incorporated in the UK, it will not be treated as being resident in the UK for UK tax purposes unless its central management and control is exercised in the UK. The Directors operate in a manner intended to ensure that the Guarantor is not resident in the UK for tax purposes and intend to continue to operate in such manner.

If the Guarantor were to be treated as being resident in the UK for UK tax purposes, this could have a material adverse effect on the Guarantor's business, results, financial condition and prospects as it could increase the tax payable and reduce tax attributes.

In addition, if the Guarantor is treated as being resident in the UK for corporation tax purposes, the Group believes that there is a risk, based on the similarity between the conditions for residency under UK tax law and the IGD rules, that the PRA will require the IGD, PLHL ICA and Solvency II calculations to be made at the Guarantor level, as further described above in *"—If the legislation or regulation to which the Group is subject in relation to group capital is amended or interpreted and applied in a new way, the Group may have to retain more capital or, in the longer term, may not be able to meet its group capital requirements"*, which could have a material adverse effect on the Group's business, results, financial position and prospects.

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

The Guarantor is incorporated under the laws of the Cayman Islands and its corporate affairs are governed by its Memorandum and Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Noteholders to take action against the Guarantor are set out in the Conditions and the Trust Deed, which are primarily governed by the laws of England and Wales. To the extent that any Noteholder obtains a judgment against the Guarantor 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.

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

The Life Companies outsource almost all of their asset management requirements, key customer service, policy administration, accounts collection, human resource payroll and administration and information technology functions under formal outsourcing arrangements, the most significant of which since the Completion of the Divestment is with Ignis Asset Management. The Group's principal current outsourcing relationships include those with Ignis Asset Management (the Divestment of which completed on 1 July 2014), Capita Life & Pensions Regulated Services Limited, Diligenta Limited (a subsidiary of Tata Consultancy Services), HCL Insurance BPO Services Limited, HSBC and Percana International Managed Services Limited.

The Group only enters into outsourcing relationships with firms which it believes have the know-how, expertise and business models that put administration and/or asset management (as applicable) at the core of their service offerings. 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 Group does not effectively develop, implement and monitor its outsourcing strategy, third party asset managers 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 failure or insolvency of, or inability to provide the relevant services by, one or more of the Group's third party service providers or asset managers 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, results, financial condition and prospects.

In particular, the business operations of Ignis Asset Management are being integrated into the existing operations of Standard Life Investments. This involves a period of change for the Life Companies whose assets are managed by Ignis Asset Management. Failure by Standard Life Investments and Ignis Asset Management to effectively implement the integration, such as failures or delays in migrating asset management systems and platforms, failure to retain key personnel during the transition, and failure to consider and mitigate all appropriate risks during transition, could have an adverse impact on the performance of Ignis Asset Management. Poor performance by Ignis Asset Management, as the Group's most significant third party asset manager since the Completion of the Divestment, could in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

## Risks Related to the Issuer

### The Issuer's ability to fulfil its obligations under the Notes is dependent on the Group.

The Issuer is a finance vehicle which is a direct wholly-owned subsidiary of the Guarantor and will on-loan the proceeds of the Notes in an amount equal to the principal amount of the Notes to a subsidiary of the Guarantor within the Insurance Group. The Issuer 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 the Notes and its other indebtedness owed to third parties. The Issuer 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 the Guarantor in relation to the Guarantee, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not, apart from the Guarantor, guarantee the payment of interest on, or principal of, the Notes.

### The Issuer is subject to risks related to the location of its centre of main interest, the appointment of examiners and the claims of preferred creditors under Irish Law.

#### *COMI*

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its centre of main interests ("**COMI**") is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of May 29, 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect." As the Issuer has its registered office in Ireland, has a majority of Irish resident directors and is registered for tax in Ireland, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it is asked to make that decision.

### *Preferred Creditors*

If the Issuer becomes subject to insolvency proceedings and the Issuer 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 the Issuer 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).

### *Examinership*

Examinership is a court procedure available under the Companies (Amendment) Act 1990, as amended to facilitate the survival of Irish companies in financial difficulties. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer 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 the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership;
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views;
- in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, both the examiner's and liquidator's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Issuer 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 the Issuer to the Noteholders under the Notes or the transaction documents in connection therewith;
- 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

- 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 the Notes

### Risks related to the Structure of the Notes

#### *Payment Obligations and Subordination*

The Issuer's payment obligations under the Notes will be direct, subordinated and unsecured and rank *pari passu* and without any preference among themselves. On a winding-up of the Issuer or in the event that an administrator of the Issuer is appointed and gives notice that it intends to declare and distribute a dividend the claims of Noteholders will rank junior in priority to the claims of all Senior Creditors of the Issuer.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and (subject to Condition 11(*d*)) the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee (subject to Condition 3(*c*)(iv)) or the Noteholders would (when taken together with any amounts recovered by the Noteholders or the Trustee on their behalf in the Guarantor Winding-Up) recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a direct subordinated obligation of the Guarantor for an amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee), then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such excess amounts and the right thereto to the Guarantor and shall irrevocably authorise and direct (and be treated as having irrevocably authorised and directed) the Issuer (or its liquidator or administrator, as appropriate) to make the payment of such excess amounts directly to the Guarantor, and following such assignment the Trustee and the Noteholders shall have no further rights against the Issuer or the Guarantor in respect of such excess amounts.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders (in each case in relation to any amount which they are entitled to receive in such Issuer Winding-Up in respect of, or arising under, the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder) but subject to Condition 3(c)(iv)) shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably all such amounts and all rights thereto to the Guarantor as consideration for the Guarantor's agreement to assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer pursuant to, and in accordance with, Condition 4(*d*) and irrevocably to have authorised and directed the Issuer (or its liquidator or administrator, as appropriate) to make the payment of any such amounts directly to the Guarantor, and following such assignment the Trustee and the Noteholders shall have no further rights against the Issuer or the Guarantor in respect of such amounts.

The Guarantor's payment obligations of all principal, interest, Arrears of Interest and other sums from time to time which are due and payable in relation to the Notes will be direct, unsecured and subordinated (i) on a winding-up of the Guarantor and (ii) in the event that an administrator of the Guarantor is appointed and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior in priority to the claims of Senior Creditors of the Guarantor.

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

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

Save in the event of a Guarantor Winding-Up, all payments by the Issuer or the Guarantor under or arising from the Notes or the Guarantee, as applicable, are conditional upon the Solvency Condition being satisfied at the time of such payment and immediately thereafter. The Solvency Condition is a dual-level test and provides that, other than in circumstances where a Guarantor Winding-Up has occurred or is occurring (but subject to Condition 3(*c*)(iv)), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes or the Trust Deed (including, without limitation, the Guarantee) are conditional upon:

(i) the Guarantor being solvent (as that term is described in Condition 3(*d*)) at the time for payment by the Issuer or, as appropriate, the Guarantor and the Guarantor still being solvent immediately thereafter; and

(ii) the Insurance Group Borrower (as defined in the Conditions) being solvent (as that term is described in Condition 3(*d*)) at the time for payment by the Issuer or, as appropriate, the Guarantor.

As at the Issue Date, the Insurance Group Borrower will be PLHL but (subject to any necessary approval from the PRA) the identity of the Insurance Group Borrower could change on one or more occasions over time. Other than in circumstances where a Guarantor Winding-Up has occurred or is occurring, no amount will be payable under or arising from the Notes or the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Insurance Group Borrower could, if the Notes were issued by the Insurance Group Borrower, make such payment and still be solvent immediately thereafter (disregarding, for this purpose only, any Corresponding Payment (as defined in the Conditions) made or to be made by it under the Tier 2 On-Loan) (together, the "**Solvency Condition**").

If any payment of interest, Arrears of Interest and/or principal cannot be made by the Issuer or, as appropriate, the Guarantor, in compliance with the Solvency Condition, payment of such amounts will be deferred in accordance with Condition 8(*b*), and such deferral will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take enforcement action under the Notes or the Trust Deed (including the Guarantee) for any purpose.

***Interest payments under the Notes and the Guarantee must be deferred under certain circumstances***

The Issuer, failing whom the Guarantor, is required to defer any payment of interest on the Notes pursuant to Conditions 3(*d*) and 6(*a*) (i) in the event that such payment cannot be made in compliance with the dual-level Solvency Condition 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 is complex and includes not only circumstances relating to the Issuer and the Guarantor but also circumstances where (i) 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 is in breach of its solvency capital requirement, (ii) the Insurance Group Borrower would be required to defer the relevant payment of interest if the Notes were issued by the Insurance Group Borrower and qualified as Tier 2 Capital of the Insurance Group Borrower and/or the Insurance Group and/or (iii) where a corresponding payment is required to be deferred under the Tier 2 On-Loan at the direction of the PRA.

The deferral of interest (and Guaranteed Amounts in respect of interest) as described above will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee) for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by the Issuer 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, (b) the date on which a Guarantor Winding-Up occurs or (c) the date fixed for any redemption or purchase of the Notes pursuant to Condition 8 (unless such redemption is mandatorily referred in accordance with the Conditions) or Condition 11.

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

See also "— *The Group may have to retain more regulatory capital as a result of fluctuations in investment markets or regulatory capital requirements, such as those imposed by regulators such as the PRA (and FCA). As industry regulators, the PRA and FCA are able to restrict the payment of cash from the Group's subsidiaries.*" above.

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

Notwithstanding the expected maturity of the Notes on the Maturity Date, the Issuer must defer redemption of the Notes on the Maturity Date or on any other date set for redemption of the Notes pursuant to Condition 8(*d*) or 8(*e*) in the event that it cannot make the redemption payments in compliance with the dual-level Solvency Condition or (ii) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed by the Issuer on such date. The definition of Regulatory Deficiency Redemption Deferral Event is complex and includes not only circumstances relating to the Issuer and the Guarantor but also circumstances where (i) 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 is in breach of its solvency capital requirement, (ii) the Insurance Group Borrower would be required to defer the relevant payment of principal if the Notes were issued by the Insurance Group Borrower and qualified as Tier 2 Capital of the Insurance Group Borrower and/or the Insurance Group and/or (iii) where a corresponding payment is required to be deferred under the Tier 2 On-Loan at the direction of the PRA.

The deferral of redemption of the Notes (and the payment of Guaranteed Amounts in respect of redemption of the Notes) will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee) 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 dual-level Solvency Condition), the Notes will be redeemed by the Issuer on the earliest of (a) the date falling 10 Business Days following cessation of the Regulatory Deficiency Redemption Deferral Event, (b) the date falling 10 Business Days after the PRA has approved the repayment or redemption of both the Notes (where such approval is required under the Relevant Rules) and any Tier 2 On-Loan or (c) the date on which a Guarantor Winding-Up occurs.

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

See also "— *The Group may have to retain more regulatory capital as a result of fluctuations in investment markets or regulatory capital requirements, such as those imposed by regulators such as the PRA (and FCA). As industry regulators, the PRA and FCA are able to restrict the payment of cash from the Group's subsidiaries.*" above.

***Early Redemption***

The Notes may, subject as provided in Condition 8, at the option of the Issuer, be redeemed before the Maturity Date 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.

The definition of Capital Disqualification Event is complex and for so long as the Issuer is not a member of the Insurance Group, relates to the regulatory capital treatment of the Tier 2 On-Loan rather than the Notes.

As discussed in greater detail in the section of this Prospectus entitled "*Regulatory Overview*", the European Union is currently developing the Solvency II framework for insurance companies, which, amongst other things, will set out features which any instruments (including subordinated notes issued by insurance groups) must have in order to qualify as regulatory capital. These features may be different and/or more onerous than those currently applicable to insurance companies in the United Kingdom and reflected in the Tier 2 On-Loan and the Notes.

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

Accordingly, while as at the Issue Date only the Tier 2 On-Loan and not the Notes are intended to be eligible to count or qualify as Tier 2 capital, there is a risk that after the issue of the Notes, a Capital Disqualification Event may occur which would entitle the Issuer to redeem the 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 also complex and investors should note that they include (but are not limited to) 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) 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 if the Issuer becomes subject to corporation tax in the United Kingdom and (b) the Issuer or the Guarantor, as the case may be, suffers or would suffer any other material adverse tax consequence in connection with the Notes or the Guarantee in a Relevant Jurisdiction (as defined) other than the Cayman Islands.

At the time of any such redemption by the Issuer, prevailing interest rates may be lower than the rate borne by the 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 Notes and may only be able to do so at a significantly lower rate. In addition, the Issuer's ability to redeem the Notes at its option in certain limited circumstances may affect the market value of the Notes. In particular, during any period when the Issuer may elect to redeem the Notes, the market value of the Notes 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 Notes without Noteholder consent***

In the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof or following the occurrence of a Capital Disqualification Event, the Issuer may, at its option and without the consent or approval of the Noteholders (but subject as provided in Condition 8), at any time elect to substitute the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Securities.

***Restricted remedy for non-payment when due***

If the Issuer is in default of any payment of interest or any principal due in respect of the Notes, the Trustee or (where the Trustee has failed to proceed as provided in the Conditions) any Noteholder may claim under the Guarantee (in accordance with the terms of the Guarantee) for such payment.

If default is then made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee, the sole remedy against the Guarantor available to the Trustee or (where the Trustee has failed to proceed against the Guarantor as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Guarantee will be the institution of proceedings for the winding-up of the Guarantor and/or proving in any winding-up or in any administration of the Guarantor and/or claiming in the liquidation of the Guarantor. Subject as set out below and in the Conditions, there would be no separate remedy against the Issuer in this circumstance.

In the event that a Guarantor Winding-Up occurs but an Issuer Winding-Up has not occurred or is not occurring, the Trustee or (where the Trustee has failed to proceed against the Guarantor as provided in the Conditions) any Noteholder may prove in the winding up or administration of the Guarantor and/or claim in the liquidation of the Guarantor, but may take no further or other action to enforce, prove or claim for any payment by the Guarantor in respect of the Notes or the Trust Deed (including the Guarantee).

In the event that an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee or (where the Trustee has failed to proceed against the Guarantor as provided in the Conditions) any Noteholder may claim under the Guarantee for the recovery of the Guaranteed Amounts and the sole remedy available will be proving in any winding-up or in any administration of the Issuer and/or the Guarantor and/or claiming in the liquidation of the Issuer and/or the Guarantor. There can be no assurance that an Issuer Winding-Up will occur at the same time as or following a Guarantor Winding-Up.

In any Issuer Winding-Up or Guarantor Winding-Up, the claims of the Noteholders will be subordinated – see "*Payment Obligations and Subordination*" above.

Non-payment by the Issuer of any amounts when due or the occurrence of any Issuer Winding-Up will not, of itself, render the Notes immediately due and payable at their principal amount. In circumstances where the Issuer fails to make a payment when due or an Issuer Winding-Up occurs but the Guarantor does not default in its obligations, the Guarantor shall procure the substitution of itself or of another Subsidiary of the Guarantor as issuer of the Notes in place of the Issuer as if the Issuer default had not occurred.

***Modifications and waivers***

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that, subject to the prior consent of the PRA being obtained (if such consent is required), the Trustee may, without the consent of Noteholders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed in the circumstances described in Condition 15.

***Substitution of obligors and transfer of business***

The Conditions provide that the Trustee may, without the consent of the Noteholders, agree to the substitution of another company as principal debtor or guarantor under the Notes in place of the Issuer, or, as the case may be, the Guarantor in the circumstances described in Condition 14. In addition, if a Newco Scheme occurs, the Issuer may, without the consent of the Noteholders or the Trustee, at its option, procure that (pursuant to the Newco Scheme) Newco is substituted under the Notes and the Trust Deed as Issuer or Guarantor.

***No limitation on Issuer or Guarantor issuing further securities***

The Issuer is a financing vehicle. There is no contractual restriction on the Issuer creating liabilities ranking equally with or more senior than the Notes and no restriction on the amount of securities which the Guarantor may issue or guarantee, which securities or guarantees rank senior to, or *pari passu* with, the Guarantee. The issue or guarantee of any such securities may reduce the amount recoverable by Noteholders on a winding-up of the Guarantor. In particular, the claims of Noteholders under the Notes shall rank junior to the claims of the Senior Creditors of the Issuer (including holders of the Senior Bonds (as defined below)) and the claims of Noteholders under the Guarantee shall rank junior to the claims of Senior Creditors of the Guarantor. Accordingly, in the winding-up of the Guarantor and after payment of the claims of its respective senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders under the Guarantee.

***The Guarantor is a holding company and the Issuer is a financing vehicle***

The Guarantor is the parent company of the Group. The operations of the Group are conducted by the operating subsidiaries of the Guarantor. 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 the Guarantor) to Noteholders in respect of any payment obligations of the Guarantor under the Notes or the Guarantee. As the equity investor in its subsidiaries, the Guarantor'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 the Guarantor is recognised as a creditor of such subsidiaries, the Guarantor'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 the Guarantor's claims. See also *"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 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, the Issuer is a financing vehicle and will be dependent upon receiving income under the Tier 2 On-Loan and any other 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 Notes. To the extent that the Issuer has made or makes other loans to other Group companies, such loans are likely to have been funded by a corresponding liability incurred by the Issuer in connection with advancing such loans. See "*The Issuer's ability to fulfil its obligations under the Notes is dependent on the Group*" above.

***Change of law***

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

***Denominations of £100,000 and integral multiples of £1,000 in excess thereof***

Investors who hold a principal amount of Notes that is less than the minimum specified denomination will be adversely affected if Certificates evidencing holdings of Notes are subsequently required to be issued. The Notes are issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof. If Certificates evidencing holdings of Notes were to be issued, a Noteholder who holds less than £100,000 in principal amount of the Notes in its account with a relevant clearing system would not be able to receive a Certificate representing those Notes and would need to purchase additional Notes such that it holds at least a principal amount of £100,000 in order to receive its Certificate representing those Notes.

## Risks related to the Market and the Notes generally

### *The secondary market generally*

Although application has been made to admit the Notes to trading on the Market, the Notes have no established trading market and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes. As at the Issue Date, subsidiaries of PGH, which have their own independent investment strategies, will hold £31,920,000 in aggregate principal amount of the Notes.

### *Exchange rate risks and exchange controls*

Payments of principal and interest on the Notes will be made in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### *Fixed rate notes are exposed to specific market risks*

The Notes bear a fixed interest rate. 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.

### *Payments on the Notes may be subject to U.S. Foreign Account Tax Compliance Act Withholding*

Whilst the Notes are in global form and held within Euroclear and Clearstream, Luxembourg (together, the "**ICSDs**"), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries (including any clearing system other than Euroclear or Clearstream, Luxembourg) in the payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation intended to implement an intergovernmental agreement entered into pursuant to FATCA, if applicable), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

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

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

While the Notes are represented by the Global Certificate, the Issuer or, as appropriate, the Guarantor, will discharge its payment obligations under the Notes by making payments to or to the order of the registered holder as nominee for the common depositary for Euroclear or Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer or, as appropriate, the Guarantor, has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

***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.

***EU Savings Directive***

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

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

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

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, which may mitigate an element of this risk if the Noteholder is able to arrange for payment through such a Paying Agent. Investors should provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

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

## SUMMARY FINANCIAL INFORMATION OF THE GROUP

The summary financial information relating to the Group set out below has been extracted without material adjustment from the financial statements (including the accompanying notes) of the Group as at and for the half year ended 30 June 2014, which are contained within the 2014 Half Year Report and Accounts, and the years ended 31 December 2013, 2012 and 2011 which are contained within the 2013 Annual Report, 2012 Annual Report and the 2011 Annual Report, respectively (the "**Audited Financial Statements**").

The following summary financial information relating to the Group should be read in conjunction with the Audited Financial Statements and the 2014 Half Year Report and Accounts, each of which are incorporated by reference into this Prospectus.

The consolidated financial information of the Group in this section has been prepared in accordance with International Financial Reporting Standards and has been prepared on a basis consistent with the accounting policies of the Guarantor used in preparing the financial statements for the year ended 31 December 2013, except where otherwise indicated.

Prospective investors in the Notes should read the whole of this Prospectus and should not rely solely on the summary financial information contained in this section.

The table below sets out the Group's selected financial information for the periods indicated. The data has been extracted without material adjustment from the 2014 Half Year Report and Accounts and the Audited Financial Statements which are incorporated by reference into this Prospectus.

| | **For the half year ended 30 June** | **For the year ended 31 December** | | |
|---|---|---|---|---|
| | **2014** | **2013** | **2012 Restated[(1)]** | **2011** |
| | *(unaudited)* | | *(audited)* | |
| IFRS operating profit before tax (£ million) | 266 | 439 | 429 | 387 |
| IFRS profit/(loss) before tax attributable to owners (£ million) | 231[(2)] | 217[(2)] | 309 | (177) |
| IFRS earnings/(loss) per share (pence): | | | | |
| Basic | 64.1 | 68.2 | 235.0 | (76.2) |
| Diluted | 64.1 | 68.1 | 234.9 | (76.2) |

Note:

(1) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). The impact of adopting these amendments was to reduce the net pension expense in the consolidated income statement with a corresponding increase in expense in other comprehensive income. There was no impact on net assets.

(2) The half year ended 2014 and the year ended 2013 figures include the results of Ignis Asset Management which, following the Divestment on 1 July 2014, are classified as discontinued operations.

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| | 2014 | 2013[1] Restated | 2012 | 2011 |
| | *(unaudited)* | *(audited)* | | |
| | | *(£ million)* | | |
| Total IFRS assets | 72,818 | 74,469 | 86,094 | 89,501 |
| IFRS equity attributable to ordinary shareholders | 2,060 | 1,909 | 1,658 | 1,652 |

Notes:

(1) As set out in the Interim Financial Statements, the relevant figures have been restated due to the adoption of IFRS 10 Consolidated Financial Statements. See "*Changes in accounting policies*".

The Directors use a number of financial key performance indicators to review and monitor the Group's performance on a regular basis. The principal key performance indicators are provided in the tables below.

| | For the half year ended 30 June | For the year ended 31 December | | |
|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 |
| | *(unaudited)* | *(audited)* | | |
| Operating companies' cash generation (£ million) | 332 | 817 | 690 | 810 |
| Dividend per share (pence) | 26.7 | 53.4 | 47.7 | 42.0 |

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 |
| | *(unaudited, unless otherwise indicated)* | | | |
| IGD surplus (£ billion) | 1.3 | 1.2 | 1.4 | 1.3 |
| Group MCEV (£ million) (audited) | 2,328 | 2,378 | 2,122 | 2,118 |
| Group assets under management (£ billion) | —[3] | 68.6 | 68.6 | 72.1 |
| PLHL ICA surplus (£ billion) | 1.0 | 1.2 | 1.0 | —[1] |
| Gearing (per cent.) | 43 | 44 | 55 | 57[2] |

Notes:

(1) In accordance with PRA requirements, the Group undertakes an ICA at the level of the highest EEA level insurance group holding company, which is PLHL. This measure was disclosed for the first time in 2012.

(2) Restated on the basis of the Group's new methodology adopted in January 2013 as gross shareholder debt as a percentage of the sum of Group MCEV and the value of the shareholder and hybrid debt as included in the MCEV. Gross shareholder debt is defined as the sum of the IFRS carrying value of shareholder debt and 50 per cent. of the IFRS carrying value of the Tier 1 Bonds given the hybrid nature of that instrument.

(3) Following the disposal of Ignis Asset Management on 1 July 2014, Group assets under management is no longer disclosed as a key performance indicator of the Group.

The following documents, all of which have been filed with the National Storage Mechanism or announced through a Regulatory Information Service are incorporated into this Prospectus by reference, as set out on pages vi-ix:

1. The Group's financial statements for the three months ended 30 September 2014 under IFRS, together with the relevant notes contained in the 2014 Q3 Interim Management Statement. The financial overview is at pages 2-3 and the explanatory notes are at page 4.

2. The Group's financial statements for the half year ended 30 June 2014 under IFRS, together with relevant notes contained in the 2014 Half Year Report and Accounts. The auditor's review report is at page 21, the condensed consolidated income statement is at pages 22 to 23, the condensed statement of consolidated comprehensive income is at page 23, the pro forma reconciliation of Group operating profit to result attributable to owners is at page 24, the condensed statement of consolidated financial position is at pages 25 to 26, the condensed statement of consolidated cash flows is at page 27, the condensed statement of consolidated changes in equity is at pages 28 to 30 and the explanatory notes are at pages 31 to 55.

3. The Group's audited consolidated financial statements for the year ended 31 December 2013 under IFRS together with relevant notes contained in the 2013 Annual Report. The independent auditor's report is at pages 99 to 101, the consolidated income statement is at page 102, the statement of consolidated comprehensive income and pro forma reconciliation of Group operating profit to result attributable to owners are at page 103, the statement of consolidated financial position is at pages 104 to 105, the statement of consolidated cash flows is at page 106, the statement of consolidated changes in equity is at pages 107 to 108 and the explanatory notes are at pages 109 to 196;

4. The Group's audited consolidated financial statements for the year ended 31 December 2012 under IFRS together with relevant notes contained in the 2012 Annual Report. The independent auditor's report is at page 92, the consolidated income statement is at page 93, the statement of consolidated comprehensive income and pro forma reconciliation of Group operating profit to result attributable to owners are at page 94, the statement of consolidated financial position is at pages 95 to 96, the statement of consolidated cash flows is at page 97, the statement of consolidated changes in equity is at pages 98 to 99 and the explanatory notes are at pages 100 to 176; and

5. The Group's audited consolidated financial statements for the year ended 31 December 2011 under IFRS together with relevant notes contained in the 2011 Annual Report. The independent auditor's report is at page 85, the consolidated income statement is at page 86, the statement of consolidated comprehensive income and pro forma reconciliation of Group operating profit to profit attributable to owners are at page 87, the statement of consolidated financial position is at pages 88 to 89, the statement of consolidated cash flows is at page 90, the statement of consolidated changes in equity is at pages 91 to 92 and the explanatory notes are at pages 93 to 164.

The Guarantor will provide without charge to each person to whom a copy of this Prospectus has been delivered, upon written or oral request of such person, a copy of any documents incorporated by reference in this Prospectus, except that exhibits to such documents will not be provided unless they are specifically incorporated by reference into this Prospectus. Requests for copies of any such documents should be directed to the Guarantor's principal place of business.

## SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The tables below set out selected unaudited financial information of the Issuer for the period from the date of its incorporation to 30 September 2014.

The summary financial information relating to the Issuer set out below has been prepared in accordance with International Financial Reporting Standards and has been prepared on a basis consistent with the account policies of the Guarantor used in preparing the financial statements for the year ended 31 December 2013.

Prospective investors in the Notes should read the whole of this Prospectus and should not rely solely on the summary financial information contained in this section.

### Statement of comprehensive income for the period from 14 January 2014 to 30 September 2014

| | *£ million* |
|---|---|
| **Revenue** | |
| Interest received | 11.5 |
| Other income | 0.3 |
| Total income | 11.8 |
| | |
| Finance costs | (11.4) |
| **Profit for the year** | 0.4 |

## Statement of financial position as at 30 September 2014

| | *£ million* |
|---|---|
| **Equity attributable to owners** | |
| Share capital | 0.0[1] |
| Retained earnings | 0.4 |
| Total equity | 0.4 |
| | |
| **Non-current liabilities** | |
| Long-term borrowings | 1,126.7 |
| | |
| **Current liabilities** | |
| Short-term borrowings | 57.7 |
| Accruals and deferred income | 10.7 |
| Total current liabilities | 68.4 |
| | |
| Total liabilities | 1,195.1 |
| | |
| **Total equity and liabilities** | 1,195.5 |
| | |
| **Non-current assets** | |
| Loans to Group entities | 1,124.4 |
| | |
| **Current assets** | |
| Loans to Group entities | 58.1 |
| Prepayments and accrued income | 11.4 |
| Financial assets | 1.6 |
| Total current assets | 71.1 |
| | |
| **Total assets** | 1,195.5 |

[1] Issued share capital is one ordinary share of £1.

## INDUSTRY OVERVIEW

### Overview of UK Life Insurance Market

In the UK, almost 300 companies are authorised to carry out long-term insurance business, such as investments, pensions and protection. Companies that carry out long-term insurance business are referred to in this Prospectus as life companies. The UK long-term life insurance market consists of two sectors:

- the open life fund sector, which comprises life companies that continue to write new business, marketing their products to new policyholders through various distribution channels; and
- the closed life fund sector, which comprises life companies that are closed to new business and are in “run off”. These companies continue to accept premiums on existing policies and administer and manage policyholder assets until the underlying policies mature or expire.

Often, within a single insurance group, there may be life companies or life funds that continue to accept new customers as well as companies that are closed to new business.

### Common Types of UK Life Insurance Policies

The range of life insurance products can be categorised along a number of lines. One such classification is by type of policyholder objective. Risk or protection products cover the risks of death, critical illness and disability; such products transfer certain insurance risks to the insurance provider. Savings and investment products sold by life companies, on the other hand, carry little or no underwriting or insurance risk.

A second distinction which can be drawn is based more explicitly on the characteristics of the investment returns of the different products. These categorisations are described in more detail below.

#### Non-profit policies

The value of non-profit (or non-participating) life and pensions products is either linked directly to the performance of the underlying assets or is guaranteed by the insurer.

Policies of the former type are typically “unit linked” products where the policyholder bears all of the investment risk. The benefits attributable to the policyholder are determined by reference to the investment performance of a specified pool of assets. The policyholder elects which units in a diversified open-end or closed-end fund to purchase. Unit linked funds include personal and group pension plans and feature regular and single-premium savings. They operate on a similar basis to US mutual funds, with the life company often charging a fee based on the value of the funds.

Alternatively, the return may be guaranteed by the insurer, which as a consequence bears the investment risk. Common examples are protection policies, such as life and disability insurance policies, which pay out lump sums on death or disability, and annuities, which provide a specified income stream over the life of the policyholder. The life company’s shareholder fund generally is entitled to retain 100 per cent. of the incremental investment returns from such funds.

#### With-profit policies

A with-profit, or participating, policy is one where the policyholder participates in the profits of the life insurance company. The insurer aims to distribute part of its profit to the with-profit policyholders in the form of bonuses. The value of such distributions is based on, among other things, the performance of the underlying pool of assets. Policy payouts are generally subject to a minimum guarantee and are “smoothed” to lessen the impact of changes in the underlying value of the assets in the short term. With-profit funds are primarily either endowments or deferred annuities. Endowments may be single or regular premium policies with minimum guaranteed sums on death or maturity, while deferred annuities are accumulation vehicles for pensions with beneficial tax treatment. All with-profit policies are entitled to potential incremental bonuses throughout the life of the policy as well as a terminal, or final, bonus. The terminal bonus represents the policyholder's final share of the assets of the fund. Any available surplus held in a with-profit fund may only be used to meet the requirements of the fund itself or be distributed in defined proportions to the fund's policyholders and the life company's shareholders. For example, the traditional with-profit fund provides for a 90:10 policyholder/shareholder split, entitling the life company's shareholder fund to a 10 per cent. share of the profits in any bonus declared. This policyholder/shareholder split enables the life company to transfer most of the investment risk of the with-profit fund to policyholders.

In recent years, the UK life sector has undergone a series of significant changes which have led to a general decline in the popularity and profitability of with-profit products. In particular:

- declining investment returns, increased volatility across all asset classes and an extended period of low-interest rates have resulted in a general reduction in bonus rates and an increased use of market value adjustments across the industry;
- increasing demand for non-profit savings and investment products at the expense of with-profit policies; and
- increased regulatory scrutiny and subsequent changes to the regulatory framework, including enhanced capital requirements, has made with-profit products more capital intensive and operationally expensive for life insurers to sell.

## Closed Life Funds

### Reasons for fund closures

Life companies may close to new business for a number of reasons, including:

- insufficient capital strength to support taking on new policies;
- poor levels of profitability on new business; and
- strategic decision to stop writing certain types of new business, such as with-profit policies.

In writing new business, life companies incur significant marketing expenses and commission payments at the time new policies are sold. Life companies generally recover these up-front costs and earn profits through margins embedded in the premiums charged to policyholders (particularly for protection and annuity products) and through other charges and asset management fees (for with-profit and unit linked products). However, the pay-back periods for the up-front costs are often up to and sometimes in excess of ten years. In addition, life companies are required to set up substantial reserves at the time new business is written and to continue to hold significant levels of capital in order to be able to meet future policyholder liabilities.

The capital position of life companies may be negatively impacted by poor investment returns, declining long-term interest rates, continuing poor performance and uncertainty in debt and equity markets. These factors can cause a reduction in the value of assets backing the liabilities of life companies. Between 2001 and 2003, the poor performance of equity markets had a strong adverse impact on the UK life insurance and pensions industry, resulting in regulatory capital issues and a number of regulatory changes and other issues impacting the industry as a whole. This led to a number of life companies having insufficient capital strength to continue to absorb the initial costs of writing new policies. As a result, a number of life companies concluded that shareholder value was best maximised by closing existing funds to new business and managing these closed life funds as efficiently as possible.

Similar issues to those that arose in the 2001 to 2003 period resurfaced amidst the turmoil in financial markets, which occurred in 2008 and 2009, due to the poor performance of most asset classes, which adversely affected the capital position of many life companies. Furthermore, increased regulatory scrutiny and subsequent changes to the regulatory framework, including enhanced capital requirements, has made some life insurance products (such as annuities or other with-profits products) more capital intensive and more expensive for life insurers to sell and administer. These trends are set to continue with the introduction of a revised set of EU-wide capital requirements, Solvency II (the main aspects of this framework are described in "*Risk Factors—Risks related to the Group—Various new reforms to the legislation and regulation relating to the UK life insurance industry are being implemented that could adversely affect the Group*"). Amongst other factors, the result of Solvency II may be that the PRA requires UK life companies to enhance their governance arrangements and to retain additional capital. The Directors believe that a consequence of this may be that more life insurance funds will close to new business and a number of closed life businesses will be put up for sale in the next few years, as some financial groups seek to release value from closed life funds to support their ongoing new business.

### Closed life fund characteristics

A closed life fund is essentially a pool of assets and a series of financial obligations that run-off as the underlying life and pension policies expire or reach maturity. These obligations represent a collection of largely long-dated liabilities comprising matured or maturing policies that entitle policyholders to defined future payments of a steady and generally predictable nature. Depending on the specific policy, policyholders may be entitled to a cash payout at the policy's maturity date or on the death of the policyholder, or a series of payouts and/or participation in the investment returns generated by the assets backing the policy. To meet these long-dated liabilities, life companies hold substantial assets collected as premiums, which are invested in a wide variety of asset classes, subject to rules set out by the relevant EU or UK regulator and the terms and conditions of the policies.

### Competitive environment for closed life fund consolidators

Closed life fund consolidators compete with each other for the acquisition of closed life businesses that may, from time to time, become available in the market. Over the past five years, a limited number of closed life fund consolidators have acquired UK closed life companies. The Group is the largest UK specialist consolidator of closed life funds, as measured by total assets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*A prospective investor should read the following review in conjunction with the rest of this Prospectus, including the Audited Financial Statements, the 2014 Half Year Report and Accounts and the 2014 Q3 Interim Management Statement which are incorporated by reference into this Prospectus and should not rely solely on the information contained in this section. This discussion contains forward-looking statements that involve risks and uncertainties that could cause the actual results of the Group to differ from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in "Risk Factors".*

*The discussion contained herein relates to, and all financial information has been extracted without material adjustment from, the historical financial information incorporated by reference into this Prospectus, which has been prepared in accordance with International Financial Reporting Standards. The Audited Financial Statements, the 2014 Half Year Report and Accounts and the 2014 Q3 Interim Management Statement have each been prepared on a historic cost basis except for investment property, owner-occupied property, and those financial assets and financial liabilities and insurance and investment contracts with discretionary participation features that have been measured at fair value.*

*This section discusses the historical financial information of the Group from 1 January 2011 to 30 June 2014 and certain information as at, and for the nine months ended, 30 September 2014.*

*In addition, this section includes a discussion of the Group's historical Market Consistent Embedded Value ("**MCEV**") results as an analysis of MCEV is considered to provide the most relevant and consistent means of assessing the Group's ability to increase value. This section also includes a discussion of the Group's liquidity and capital resources.*

## Key Factors Affecting Results of Operations and Comparability

The following paragraphs describe the key factors which have affected the results of operations of the Group during the period from 1 January 2011 to 30 June 2014 and which may affect the results of operations of the Group in subsequent periods.

### Market update

The first half of 2011 was characterised by volatility in investment markets that was driven by uncertainty about the strength and sustainability of global growth and a debt crisis in Europe. The financial environment became even more volatile in the second half of 2011 following increased concerns about the impact of the sovereign debt crisis, the trajectory of global economic growth and the strength of some banking systems. Global financial stress increased with a retrenchment in cross-border bank lending and investors reallocated capital away from "risky" assets. In addition, wholesale funding pressures rose sharply during this period as a result of the widening of spreads on corporate bonds and increases in the cost of sovereign debt, which exacerbated concerns over global growth and sovereign solvency. These circumstances exerted significant downward pressure on the prices of equity securities, corporate bonds and property assets. These decreases were partially offset by increases in the value of gilts following the reduction in yields to historical lows in the second half of 2011.

In 2012, there were signs of improvement in the UK economy. The FTSE All Share (Growth) Index increased from 2858 at 31 December 2011 to 3093 at 31 December 2012, finishing 8.2 per cent. higher. Encouraging economic data from the US, China and the UK, the EU Member States finally reaching an agreement over the Greek financial crisis and the vow made by the European Central Bank President "to do whatever it takes to preserve the Euro" resulted in the index increasing month on month in the second half of 2012.

Gilt yields fell in respect of short to medium durations over 2012 and remained at historical lows. The fact that the UK continued to be seen as a safe haven for investors in a time of trouble across the rest of Europe contributed to these falls. 2012 saw credit spreads narrow as there was more stability in the financial markets and support for Greece and Spain in tackling their respective sovereign debt issues eased fears of contagion.

The FTSE All Share (Growth) Index increased from 3093 at 31 December 2012 to 3610 at 31 December 2013, 16.7 per cent. higher. Encouraging economic data from the US, receding fears over the state of the global economy and the continuation of the US Federal Reserve's quantitative easing programme resulted in the index increasing. Property markets also increased in 2013. The All Property Index showed an increase of approximately 10.9 per cent. from 31 December 2012.

Gilt yields increased over 2013 across all durations reflecting increased investor confidence through the year. Greater stability in the financial markets also benefited credit spreads throughout the course of 2013.

In the first half of 2014, concerns about geopolitical tensions in the Ukraine, Russia and Middle East have held markets back. Reflecting this, the FTSE All Share (Growth) Index decreased slightly from 3610 at 31 December 2013 to 3600 at 30 June 2014, finishing the period 0.3 per cent. lower. Despite concerns about geopolitical tensions, total returns on UK equities were positive for the period (1.6 per cent. on FTSE All Share Total Return) and the Bank of England implied inflation rate decreased by 0.1 per cent. During the period, gilt yields have fallen at all durations beyond 5 years (15 year gilt yield has decreased by 28 bps) and credit spreads have narrowed across all ratings. The All Property Index showed an increase of approximately 9.1 per cent.

These economic conditions negatively affected the results of operations of the Group's insurance subsidiaries during 2011 and, to a lesser extent, in the first half of 2012, reversing in the second half of 2012. 2013 benefited from the positive impacts of narrowing credit spreads, increasing yields and improved property returns partly offset by losses on equity hedging positions on an IFRS basis. The first half of 2014 has benefited from the positive impact of a reduction in the implied rate of inflation and movements in fixed interest yields which have more than offset losses arising as a result of narrowing credit spreads and the adverse impact of equity hedging positions on an IFRS basis.

The long-term nature of much of the Group's operations means that the effects of short-term economic volatility are treated as non-operating items. In calculating the Group's IFRS operating profit, the Group incorporates expected returns on investments supporting its long-term business. Changes due to economic items, for example market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit as investment variances and economic assumption changes. The Group's investment return variances and economic assumption changes on long-term business on an IFRS basis were a positive £59 million for the half year ended 30 June 2014 compared with a negative £13 million for the half year ended 30 June 2013. It was a positive £64 million for the year ended 31 December 2013, compared with a positive £1 million for the year ended 31 December 2012 and a negative £338 million for the year ended 31 December 2011.

Although the Group is not immune to further negative developments in the Eurozone region, it has carefully managed its exposure to peripheral Eurozone countries (defined as Portugal, Italy, Ireland, Greece and Spain), broadly maintaining shareholder, non-profit and supported with-profit fund debt securities held in peripheral Eurozone sovereign and supranational debt to £5 million as at 30 June 2014 (£4 million as at 31 December 2013). The unit linked and non-supported with-profit funds' exposure to debt securities held in peripheral Eurozone sovereign and supranational debt was £4 million at 30 June 2014 (£5 million as at 31 December 2013).

### Mortality, longevity and persistency

The Group's results of operations and cash flows may be affected by increased mortality and longevity rates and by variances between assumed and actual experience in factors such as persistency levels. As the Group's term and annuity business are inversely related, fluctuations in mortality and longevity rates will positively impact one business while negatively impacting the other, with the Group's exposure to longevity rates having a more pronounced effect on the Group than the Group's exposure to mortality rates. Increased mortality rates increase death claims on the Group's term insurance products, while increased longevity rates result in pay-outs to holders of annuities over a longer period. The Group manages its exposure to changes in mortality and longevity rates by holding prudent reserves based on assumptions that reflect past experience and anticipated future trends.

In addition, the Group maintains reserves to compensate policyholders that choose to surrender their respective policies, the amount of such reserves being based on the assumed level of surrenders. Variances between the assumed level of surrenders and the actual level of surrenders expose the Group to persistency risk. In the case of policies providing a guaranteed payment at a future date, if the amount of surrenders falls below expectations, the Group will need to provide for the cost of the additional future payments. On the other hand, in the case of policies providing no guaranteed payment, if the amount of surrenders exceeds expectations, the anticipated future profits to be obtained from these policies could be curtailed.

The Group's IFRS insurance liabilities decreased by £12 million as a result of changes in persistency assumptions and were unchanged as a result of updates to longevity assumptions in the first six months of 2014 (2013: increased by £6 million and decreased by £6 million, respectively; 2012: increased by £32 million and decreased by £5 million, respectively; 2011: increased by £18 million and decreased by £72 million, respectively).

### Changes in market levels

The Group's results and financial condition, and in particular the Group's IGD surplus and its PLHL ICA, can be affected by changes in market levels, including risk-free rates, corporate bond credit spreads, equity values and property values.

### Divestment of Ignis Asset Management

On 1 July 2014, the Group completed the disposal 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 on Completion of the Divestment. A payment of £5.5 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. For details on the financial effects of the Divestment on the Group, see "*General Information—Material Contracts of the Guarantor—Contracts relating to the Divestment of Ignis Asset Management*" and "*Financial Information Relating to the Divestment*".

The results of Ignis Asset Management for the period from 1 January to the date of completion continue to be consolidated in the Group financial statements of the Guarantor for the half year ended 30 June 2014 and the year ended 31 December 2014, being disclosed as discontinued operations. Phoenix Life and Ignis Asset Management continue to be reported as separate segments in those financial statements.

### Equity raise and debt refinancing

In January 2013, the Group announced the re-terming of the Impala Facility and an equity raising of £250 million. The equity raising comprised equity placings with certain affiliated investment funds of Och-Ziff Capital Management Group ("**Och-Ziff Funds**") and an open offer to raise aggregate gross proceeds of £250 million through the issuance on 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of deduction of commissions, fees and expenses were £232 million.

This equity raising enabled the re-terming of the Impala Facility and contributed to a £450 million prepayment on 22 February 2013. Following the re-terming the bullet repayments which were due in 2014, 2015 and 2016 were replaced by a single tranche repayable by June 2019 (assuming the option to extend the Impala Facility from its maturity on 31 December 2017 was exercised by the Impala Borrowers). The mandatory repayments on the Impala Facility were reduced from £125 million per annum to £60 million per annum.

Following Completion of the Divestment on 1 July 2014, £250 million of the proceeds were used to prepay existing bank debt under the Impala Facility.

On 7 July 2014 the Group issued a £300 million senior unsecured bond at an annual coupon of 5.75 per cent. from the Group's new financing vehicle, PGH Capital Limited (the "**Senior Bond**" or the "**Senior Bonds**"). The net proceeds of £296 million were used to prepay the Impala Facility. For further information, see "*Description of Certain Other Indebtedness – The Senior Bonds*".

On 23 July 2014 the Group unified the remaining senior bank debt and PIK Notes (Pearl Facility and Impala Facility) into a single 5 year £900 million unsecured bank facility at PGH Capital Limited (the "**Facilities Agreement**"). The Facilities Agreement was agreed with a core set of lending banks and allows further simplification of the Group's corporate structure over time. As part of the bank refinancing a further prepayment of £206 million of existing debt was made, financed by existing internal resources. For further information, see "*Description of Certain Other Indebtedness – The Facilities Agreement*".

This refinancing is the culmination of a series of actions that the Group has undertaken to reduce its gearing over the past five years, with total shareholder borrowings, including Tier 1 bonds, reducing from £3.5 billion at the end of 2009 to £2.2 billion as at 30 June 2014. On a pro forma basis, to reflect the Senior Bond issuance, the Divestment and the Facilities Agreement, shareholder borrowings, including Tier 1 bonds, is reduced further to £1.8 billion as at 30 June 2014.

### Transfer of annuity in-payment liabilities to Guardian Assurance Limited

On 27 June 2012, the Guarantor announced an agreement to transfer approximately £5 billion of annuity in-payment liabilities to Guardian Assurance Limited ("**Guardian Assurance**"). The transaction was part of an ongoing management action programme to accelerate cash and significantly reduced the Group's sensitivity to longevity risk.

The transaction comprised the reinsurance of approximately £5 billion of annuity in-payment liabilities to Guardian Assurance and was effective from 1 July 2012. The Group made an associated transfer of approximately £5 billion of assets to Guardian Assurance as the related reinsurance premium for the transferred annuity liabilities. Guardian Assurance has agreed terms with Ignis Asset Management for it to provide investment management services in respect of the majority of the assets transferred pursuant to the reinsurance agreements. The reinsurance agreement was replaced by a formal Part VII transfer of the annuity liabilities to Guardian Assurance effective on 1 October 2013.

The transaction resulted in the release of regulatory capital backing the transferred annuity in-payment liabilities, and in the year ended 31 December 2012, this transaction increased the free surplus within the Life Companies by £252 million (this additional free surplus was distributed in cash to the UK holding companies during 2013), improved the Group IGD surplus by £45 million and increased MCEV by £38 million. The transaction did not have a material impact on the Group recurring operating profit for the year ended 31 December 2012 calculated under IFRS. As the annuity liabilities include prudential margins under IFRS, a non-recurring positive impact of £177 million was reported outside of operating profit in the consolidated financial statements for the year ended 31 December 2012.

The Group realised further Group IGD benefits of £0.2 billion when the annuity liabilities were transferred to Guardian Assurance through the Part VII transfer on 1 October 2013. An IFRS gain on the transfer of £65 million was reported outside of operating profit in the consolidated financial statements for the year ended 31 December 2013.

On 31 July 2014, PLL entered into a second reinsurance agreement to transfer approximately £1.7 billion of in-payment liabilities from three with-profit funds to Guardian Assurance, effective 1 January 2014. It is expected that the reinsurance agreement will be replaced with a formal Part VII transfer of the annuities to Guardian in 2015, affecting around 60,000 policies. This transaction removes a significant element of longer dated risk from three separate with-profit funds in PLL. The transaction was recognised in the MCEV results as at 30 June 2014, reducing MCEV by £14 million. No impact was recognised in the IFRS results as at 30 June 2014.

## Changes in accounting policies

### *IFRS*

In 2013, the Group adopted the revised version of IAS 19 Employee Benefits (2011) with a date of initial application of 1 January 2013 and consequently changed its basis for determining the IFRS income or expense related to defined benefit pension schemes.

The Group now determines the net interest expense/income on the net surplus/deficit for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net surplus/deficit at the beginning of the annual period. It takes into account any changes in the net surplus/deficit during the period as a result of contributions and benefit payments. The net interest on the net surplus/deficit comprises:

- interest cost on the defined benefit obligation;
- interest income on scheme assets; and
- interest on the provision for tax on the economic surplus available as a refund and on the irrecoverable amount of deficit reduction contributions.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return and all changes in the provision for tax on the economic surplus available as a refund and the irrecoverable amount of deficit reduction contributions were recognised in other comprehensive income.

This change in accounting policy has been applied retrospectively. The change has decreased the after tax defined benefit expense recognised in the consolidated income statement and correspondingly increased the after tax loss on remeasurements of the net defined benefit asset/liability recognised in other comprehensive income by £15 million for the year ended 31 December 2012. This change in accounting policy had no impact on net assets or cash flows as at 31 December 2013 or as at 31 December 2012.

In 2014, the Group changed the basis of preparation for the Group's consolidated financial statements from IFRSs adopted for use in the European Union to IFRSs issued by the IASB, effective from 1 January 2014 and adopted IFRS 10 Consolidated Financial statements and IFRS 11 Joint Arrangements. As a result of adopting the new basis of preparation in 2014, IFRS 10 and IFRS 11 have an initial application date of 1 January 2013, resulting in the restatement of previous financial information. The impact of IFRS 10 is explained below. The adoption of IFRS 11 results in the presentation of a property investment structure as an investment in joint ventures within financial assets (previously disclosed as an equity investment). As a result of the Group's accounting policy to value interests in joint ventures at fair value through profit or loss there has been no change in the measurement basis.

IFRS 10 replaces the parts of the previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities, and establishes a single control model that applies to all entities including special purpose entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiary undertakings are those entities over which the Group has control. The Group controls an investee if and only if the Group has all the following:

- power over the investee;

- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The Group is invested in a number of collective investment schemes which in turn invest in a range of financial assets. The Group's percentage ownership in these collective investment schemes can fluctuate according to the Group's and third party participation in them. When assessing the control over these collective investment schemes the Group considers the scope of its decision making authority including its ability to direct the relevant activities of the fund, powers of veto and exposure to variability of returns. The Group also assesses substantive removal rights that may affect the Group's ability to direct the relevant activities.

Tables summarising the financial effects on the condensed consolidated income statement, condensed statement of consolidated financial position and condensed statement of consolidated cash flows on implementation of the new accounting policy can be found in the 2014 Half Year Report and Accounts, which is incorporated by reference into this Prospectus. This change in accounting policy had no impact on net assets or on earnings per share as at 31 December 2013 or 30 June 2013.

***MCEV***

In the second half of 2012, the Group amended its MCEV policy for recognising contributions to pension schemes in an IFRS surplus position. Prior to 2012, these contributions were recognised in Group costs. These contributions are now recognised in other comprehensive income along with actuarial gains and losses on Group schemes that are in an IFRS deficit, so that these non-operating items are treated consistently.

The impact of the restatement for the year ended 31 December 2011 was to reduce Group costs by £30 million from £84 million to £54 million, to increase Tax on operating earnings by £7 million from £141 million to £148 million and to reduce other comprehensive income by £23 million. There was no net impact on the closing 2011 MCEV.

## Description of Key Line Items

The following descriptions of key line items in the Audited Financial Statements are relevant to the discussion of the results of operations.

### Gross premiums written

Although the Group, as a consolidator of closed funds, does not write new life insurance policies (other than increments to existing policies), it receives premiums in connection with its in-force policies. In addition, the Group allows the proceeds of certain policies, such as pension savings plans, to be reinvested at maturity into annuities with a Life Company.

The relative levels of gross written premiums therefore largely depend on the persistency of products sold in previous years, particularly annual premium products.

For insurance contracts and investment contracts with discretionary participation features ("**DPF**"), premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. The above mentioned reinvestments of proceeds (received at maturity) into annuities are classified as new business single premiums and, for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written.

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the consolidated statement of financial position as an adjustment to the liability to the policyholder.

### Premiums ceded to reinsurers

As part of its risk mitigation strategy, the Group reinsures certain policies with reinsurers. The premiums associated with such reinsurance are accounted for when they become payable.

### Fees

Fees are primarily composed of (i) fund management fees and (ii) investment contract income.

Fund management fees are recognised as services are provided and, for each fund, are typically calculated as a percentage of the fair value of the investments managed by that fund.

Investment contract income is received from investment contract policyholders and is composed of charges for administration services, investment management services, surrenders and other contract fees. This income is recognised as revenue over the period in which the related services are performed. If the income relates to services to be provided in future periods, such income is deferred and recognised when such services are actually performed. In addition, the Group charges 'front end' fees in relation to some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, fees relating to the provision of investment management services are deferred and are only recognised when such services are provided.

### Net investment income

Net investment income comprises interest, dividends, rents receivable, net interest income/expense on defined benefit pension schemes, fair value gains and losses on financial assets and investment property and impairment losses on loans and deposits.

Net investment income includes both shareholder and policyholder income. Income attributable to policyholders is offset by increases in policyholder liabilities, which are reflected as expenses in the Group accounts.

Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised on the date the right to receive payments is established, which, in the case of listed securities, is the ex-dividend date.

Rental income from investment property is recognised 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.

Realised and unrealised gains and losses on financial assets designated at fair value through profit or loss are recognised in the consolidated income statement. Realised gains and losses reflect the difference between the net sale proceeds and the original cost. Unrealised gains and losses reflect the difference between the valuation at the period end date and their valuation at the previous period end or purchase price, if acquired during the year.

### Policyholder claims

Policyholder claims on insurance contracts and on investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration.

Claims payable on maturity are recognised when the claim becomes due for payment, and claims payable on death are recognised on notification of the death. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is recognised when it becomes due for payment. Claims payable include the costs of settlement.

### Reinsurance recoveries

Reinsurance recoveries are recognised when the related gross insurance claim is recognised, according to the terms of the relevant contract.

### Change in insurance contract liabilities

The change in insurance contract liabilities is typically a credit, reflecting the reduction in the Group's liabilities from claims paid during the year. Such credit is equivalent to the amount the Group previously allocated (in preceding financial years) for policyholder claims that were paid during the present year (which are reflected in the Group's income statement under "policyholder claims"). Since the Group is closed to new business, the settlement of liabilities is not offset by new liabilities associated with new business. The change in insurance liabilities also reflects increases or decreases in the liabilities due to changes in assumptions, discount rates and other methodology changes.

### Transfer from unallocated surplus

The unallocated surplus comprises the shareholders' future share of with-profit bonuses (including associated tax balances). When transfers are made from the unallocated surplus, the amounts to be received by such shareholders in the future decrease accordingly.

### Change in investment contract liabilities

The change in investment contract liabilities reflects the fluctuations in the fair value of the assets underlying the Group's investment contract liabilities.

### Amortisation of acquired in-force business

Acquired in-force business represents the fair value of acquired insurance and investment contracts at the time of their acquisition (less the liabilities associated with those contracts measured in accordance with the Group's accounting policies for such contracts) and is recorded in the acquirer's balance sheet. Such amount is amortised over the estimated life of the contracts on a basis that recognises the emergence of the economic benefits.

### Total administrative expenses

Total administrative expenses comprise primarily expenses relating to salaries for employees, depreciation on property and equipment, amortisation and impairment of intangible assets other than acquired in-force business.

### Net (income)/expense attributable to unit holders

In accordance with IFRS, the Group consolidates the financial results of the unit trusts and collective investment schemes in which it holds a stake of greater than 50 per cent. Net (income)/expense attributable to unit holders represents the share of such unit trusts' and collective investment schemes' losses/gains that belongs to the non-controlling interests in such unit trusts and collective investment schemes.

Consequently, if unit trusts and collective investment schemes in which the Group holds a stake of greater than 50 per cent. collectively incur an investment loss, the Group will record a credit under "net expense attributable to unit holders". Alternatively, if such unit trusts and collective investment schemes collectively record an investment gain, the Group will record a charge under "net income attributable to unit holders".

### Other operating expenses

Other operating expenses comprise "Acquisition costs", "Change in present value of future profits" and "Amortisation of acquired in-force business".

### Finance costs

Finance costs comprise interest owed to banks and other credit institutions and other interest expenses due to financing arrangements during the period.

## Results of Operations for the Group under IFRS for the Half Years ended 30 June 2014 and 2013

The table below sets forth the Group's combined results of operations under IFRS for the half years ended 30 June 2014 and 2013.

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013 Restated**[1] |
| | *(£ million)* *(unaudited)* | |
| Gross premiums written | 513 | 672 |
| Premiums ceded to reinsurers | (31) | (37) |
| **Net premiums written** | **482** | **635** |
| Fees | 59 | 67 |
| Net investment income | 2,043 | 942 |
| **Total revenue (net of reinsurance payable)** | **2,584** | **1,644** |
| Gain on transfer of business | 4 | — |
| Other operating income | 5 | 4 |
| **Net income** | **2,593** | **1,648** |
| Net policyholder claims and benefits incurred | (1,730) | (513) |
| Change in investment contract liabilities | (187) | (573) |
| Total administrative expenses[2] | (209) | (218) |
| Net income attributable to unit holders | (29) | (171) |
| Other operating expenses[3] | (66) | (57) |
| **Profit before finance costs and tax** | **372** | **116** |
| Finance costs | (82) | (129) |
| **Profit/(Loss) for the period before tax** | **290** | **(13)** |
| Owners' tax | (49) | (2) |
| Policyholder tax | (32) | 29 |
| Tax (charge)/credit | (81) | 27 |
| **Profit from continuing operations for the period** | 209 | 14 |
| Loss from discontinued operations, net of tax | (18) | (22) |
| **Profit/(loss)for the period** | 191 | **(8)** |
| **Attributable to**: | | |
| Owners of the parent | 144 | (27) |
| Non-controlling interests | 47 | 19 |
| | **191** | **(8)** |

Notes:

(1) As stated in the 2014 Half Year Report and Accounts, the relevant figures have been restated due to a change in accounting policy for the adoption of IFRS 10 and IFRS 11. See "*Changes in Accounting Policies*" above. In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*" below.

(2) Total administrative expenses comprise "Administrative expenses" and "Amortisation of customer relationships and other intangibles".

(3) Other operating expenses comprise "Acquisition costs", "Change in present value of future profits" and "Amortisation of acquired in-force business".

### Net premiums written

The Group's net premiums written for the half year ended 30 June 2014 decreased by £153 million to £482 million from £635 million for the half year ended 30 June 2013. This decrease largely reflects the run-off of the Group's closed life fund business together with a reduction in annuity fund premiums due to the March Budget announcement regarding freedom on pensions.

### Fees

The Group's fees for the half year ended 30 June 2014 decreased by £8 million to £59 million, from £67 million for the half year ended 30 June 2013. This decrease is attributable to an increase in investment contract income, which has been more than offset by a decrease in fund management fees.

### Net investment income

The Group's net investment income for the half year ended 30 June 2014 increased by £1,101 million, from £942 million for the half year ended 30 June 2013 to £2,043 million for the half year ended 30 June 2014. This increase in net investment income compared to the prior period reflects fair value gains in holdings in gilts and corporate bonds due to a reduction in yields in the first half of 2014, compared to rising yields in the first half of 2013. The increase also reflects improved returns on investment property in the period, partly offset by lower gains on equity based investments relative to the comparative period.

### Total revenue (net of reinsurance payable)

As a result of the foregoing factors, the Group's total revenue (net of reinsurance payable) increased by £940 million between 2013 and 2014, from £1,644 million for the half year ended 30 June 2013 to £2,584 million for the half year ended 30 June 2014.

### Gain on transfer of business

The Group's gain on transfer of business relates to the disposal of BA(GI) Limited ("**BAGI**"). The Group completed the sale of its entire interest in BAGI to National Indemnity Company on 18 March 2014 for cash consideration of £21 million. The carrying value of the net assets transferred was £17 million, resulting in a pre-tax gain of £4 million.

### Other operating income

The Group's other operating income remained relatively stable at £5 million for the half year ended 30 June 2014 compared to £4 million as at 30 June 2013.

### Net income

As a result of the foregoing factors, the Group's net income increased by £945 million between 2014 and 2013, from £1,648 million for the half year ended 30 June 2013 to £2,593 million for the half year ended 30 June 2014.

### Net policyholder claims and benefits incurred

The table below sets forth a breakdown of the Group's net policyholder claims and benefits incurred for the half years ended 30 June 2014 and 2013.

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013** |
| | *(£ million)* *(unaudited)* | |
| Policyholder claims | (1,888) | (2,443) |
| Reinsurance recoveries | 109 | 274 |
| **Net policyholder claims** | **(1,779)** | **(2,169)** |
| Change in insurance contract liabilities | 56 | 2,526 |
| Change in reinsurers' share of insurance contract liabilities | 12 | (832) |
| Transfer to unallocated surplus | (19) | (38) |
| **Net change in insurance contract liabilities** | **49** | **1,656** |
| **Net policyholder claims and benefits incurred** | **(1,730)** | **(513)** |

#### *Net policyholder claims*

The Group's net policyholder claims for the half year ended 30 June 2014 decreased by £417 million to £1,779 million from £2,169 million for the half year ended 30 June 2013. The reduction in claims experience generally reflects the run-off of the business. In addition, annuity claims decreased due to the Part VII transfer of approximately £5 billion of annuity inpayment liabilities to Guardian Assurance in the second half of 2013.

#### *Net change in insurance contract liabilities*

The net change in the Group's insurance contract liabilities for the half year ended 30 June 2014 was a decrease of £1,607 million, to income of £49 million, from income of £1,656 million for the half year ended 30 June 2013, primarily due to the impact of decreasing yields in the first half of 2014 on the valuation of the insurance liabilities.

### Change in investment contract liabilities

The change in the Group's investment contract liabilities for the half year ended 30 June 2014 was a decrease of £386 million to an expense of £187 million, as compared to an expense of £573 million for the half year ended 30 June 2013. The change was primarily due to the investment performance of the assets underlying the Group's investment contract liabilities in particular, lower equity returns in the first half of 2014 relative to the first half of 2013.

### Total administrative expenses

The table below sets forth a breakdown of the Group's total administrative expenses for the half years ended 30 June 2014 and 2013.

| | Half year ended 30 June | |
|---|---|---|
| | 2014 | 2013 Restated(1) |
| | (£ million) (unaudited) | |
| Administrative expenses | (202) | (211) |
| Amortisation of customer relationships and other intangibles | (7) | (7) |
| **Total administrative expenses** | **(209)** | **(218)** |

Note:

(1) As stated in the 2014 Half Year Report and Accounts, the relevant figures have been restated due to a change in accounting policy for the adoption of IFRS 10 and IFRS 11. See "*Changes in Accounting Policies*" above. In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*" below.

The Group's total administrative expenses for the half year ended 30 June 2014 decreased by £9 million to £209 million, from £218 million for the half year ended 30 June 2013 consistent with the closed life fund business model and following lower service costs in relation to the defined benefit pension scheme.

### Net income attributable to unit holders

The Group's net income attributable to unit holders for the half year ended 30 June 2014 was £29 million, as compared to a net income attributable to unit holders of £171 million for the half year ended 30 June 2013. This decrease corresponds to a decrease in third party ownership of certain consolidated investment vehicles and more benign equity markets compared to the prior period.

### Other operating expenses

Other operating expenses, which include acquisition costs, changes in present value of future profits ("**PVFP**") and amortisation of acquired in-force business, for the half year ended 30 June 2014 increased by £9 million to £66 million, from £57 million for the half year ended 30 June 2013. This increase in expense is mainly due to a decrease in the valuation of the PVFP intangible asset as a result of the externally imposed cap on workplace pension fee charging structures.

### Profit before finance costs and tax

As a result of the foregoing factors, the Group's profit before finance costs and tax increased by £256 million, from a profit of £116 million for the half year ended 30 June 2013 to a profit of £372 million for the half year ended 30 June 2014.

### Finance costs

The Group's finance costs for the half year ended 30 June 2013 decreased by £47 million, to £82 million, from £129 million for the half year ended 30 June 2013. The decrease was primarily due to the non-recurring impacts on the 2013 half year result of one-off arrangement and structuring fees paid for refinancing the Impala Facility and costs relating to swap positions which were closed out in the second half of 2013 as well as a lower level of debt following repayments made during the period.

### Profit/(loss) for the period before tax

As a result of the foregoing factors, the Group's profit for the period before tax changed by £303 million, from a loss of £13 million for the half year ended 30 June 2013 to a profit of £290 million for the half year ended 30 June 2014.

### Tax (charge)/credit

In addition to paying tax on their profits ("**Owners' tax**"), the Group's life businesses pay tax on policyholders' investment returns on certain products at policyholder tax rates ("**Policyholder tax**"). Policyholder tax is included in the total tax charge.

The table below sets forth a breakdown of the Group's tax charge between Owners' tax and Policyholder tax for the half years ended 30 June 2014 and 2013.

| | **Half year ended 30 June** | |
|---|---|---|
| | **2014** | **2013 Restated[(1)]** |
| | *(£ million) (unaudited)* | |
| Owners' tax | (49) | (2) |
| Policyholder tax | (32) | 29 |
| **Tax (charge)/credit** | **(81)** | **27** |

Note:

(1) As stated in the 2014 Half Year Report and Accounts, the relevant figures have been restated due to a change in accounting policy for the adoption of IFRS 10 and IFRS 11. See "*Changes in Accounting Policies*" above. In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*" below.

For the half year ended 30 June 2014, the Group had a tax charge of £49 million based on a profit (after policyholder tax) of £258 million. The actual charge is lower than the expected charge primarily due to certain profit being either non-taxable or taxable at rates other than the standard rate (21.5 per cent.).

For the half year ended 30 June 2013, the Group had a tax charge of £2 million based on a profit (after policyholder tax) of £16 million. This is broadly in line with the expected charge (based on the UK corporation tax rate of 23.25 per cent.) of £4 million although there were a number of offsetting differences which impacted the overall position.

### Profit from continuing operations for the period

As a result of the foregoing factors, the Group's profit for the period increased by £195 million, from a profit of £14 million for the half year ended 30 June 2013 to a profit of £209 million for the half year ended 30 June 2014.

### Loss from discontinued operations, net of tax

This loss is attributable to Ignis Asset Management which was disposed by the Group on 1 July 2014 and excludes intercompany income which was eliminated on consolidation of the Group. For the half year ended 30 June 2014, the Group had a loss of £18 million, a reduction of £4 million from a loss of £22 million for the half year ended 30 June 2013. The reduction in the loss reflects increased third party income in investment funds, partly offset by increased staff incentive costs. The loss before tax for the period from a discontinued operation excludes intragroup fee income of £38 million (half year ended 30 June 2013: £43 million).

### Profit/(loss) for the period

As a result of the foregoing factors, the Group's profit for the period increased by £199 million, from a loss of £8 million for the half year ended 30 June 2013 to a profit of £191 million for the half year ended 30 June 2014.

### Non-controlling interests

The Group's non-controlling interests are attributable to £500 million of perpetual reset capital securities (the "**Perpetual Securities**"), which PGH1 has in issue and which are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange, and the Group's interest in UK Commercial Property Trust Limited, which is a listed Guernsey based property trust.

The Perpetual Securities are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Following amendments to the Perpetual Securities in 2010, the principal amount outstanding (following application of a pool factor of 0.85) was £425 million. Payments in respect of the Perpetual Securities are conditional upon PGH1 being solvent at the time of payment and immediately following such payment. The Perpetual Securities have no fixed maturity date and interest payments may be deferred at the option of PGH1; accordingly, the Perpetual Securities meet the definition of equity for IFRS reporting. As the Perpetual Securities are not held by the Guarantor they are accounted for as a non-controlling interest in the consolidated IFRS accounts.

The profit of £10 million for the half years ended 30 June 2014 and 2013, relates to the interest coupon on the Perpetual Securities. Such Perpetual Securities receive coupon interest only and do not otherwise share in the profits of the Group. For further information, see "*General Information—Material Contracts of the Guarantor—Tier 1 Bonds*".

As the Group's policyholder long-term funds hold over 50 per cent. of the units of UK Commercial Property Trust Limited, in accordance with IFRS, 100 per cent. of the trust's profits and losses are consolidated with the Group's financial results. The profit of £37 million and £9 million for the half years ended 30 June 2014 and 2013, respectively, represents the share of the profits of the trust that are attributable to the external investors who hold the remaining units in the trust.

## IFRS Operating Profit for The Group for the Half Years ended 30 June 2014 and 2013

Operating profit as presented by the Group is a non-GAAP financial measure and is not a measure of financial performance under IFRS. The Group presents operating profit because it is less affected by short-term external market impacts than IFRS measures of performance and therefore in the Group's view it provides a better basis for assessing trends in the operational performance of the Group over time. Operating profit represents the normalised long-term investment return in that it excludes short-term fluctuations in investment returns and other items considered to be non-operating by the Group's management. Operating profit should not be considered in isolation as an alternative to profit or loss for a period before tax or other data presented in the Group's financial statements as indicators of financial performance. Because it is not determined in accordance with IFRS, operating profit as presented by the Group may not be comparable to other similarly titled measures of performance of other companies.

Operating profit is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. Operating profit is presented before the deduction of the following non-operating items:

- amortisation of acquired in-force business and other intangibles; and
- non-recurring items.

For a reconciliation of operating profit to IFRS profit/(loss) for the period, see "*Reconciliation of the Group's IFRS operating profit*" of this section.

### Analysis of the Group's operating profit

The following table is an analysis of the Group's operating profit for the half years ended 30 June 2014 and 2013.

| | Half year ended 30 June | |
|---|---|---|
| | 2014 | 2013 Restated[(1)] |
| | *(£ million)* *(unaudited)* | |
| Phoenix Life | 256 | 178 |
| Ignis Asset Management – discontinued operation | 17 | 19 |
| Group costs | (7) | (11) |
| **Operating profit before tax** | **266** | **186** |

Note:

(1) Following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*" above.

### *Phoenix Life*

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities).

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. Changes due to economic items which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are accounted for outside of operating profit.

The following table sets forth a breakdown of the Group's operating profit for Phoenix Life for the half years ended 30 June 2014 and 2013.

| | Half year ended 30 June | |
|---|---|---|
| | 2014 | 2013 |
| | *(£ million)* *(unaudited)* | |
| With-profit | 36 | 36 |
| With-profit where internal capital support provided | (6) | 12 |

| | Half year ended 30 June | |
|---|---|---|
| | 2014 | 2013 |
| | *(£ million)* *(unaudited)* | |
| Non-profit and unit linked | 205 | 105 |
| Longer term return on owners' funds | 5 | 7 |
| Management services | 16 | 18 |
| **Phoenix Life operating profit** | **256** | **178** |

*With-profit*

The with-profit operating profit represents shareholders' one-ninth share of policyholder with-profit bonuses. The with-profit operating profit for the half year ended 30 June 2014 of £36 million is in line with the comparative period for the previous year.

*With-profit where internal capital support provided*

The operating profit for with-profit funds where internal capital support has been provided decreased by £18 million to a loss of £6 million for the half year ended 30 June 2014, from a profit of £12 million for the half year ended 30 June 2013. The decrease compared to the prior period reflects the one-off adverse impact of modelling enhancements in the period of £24 million partly offset by the impact of changes to persistency assumptions in light of the pensions reforms announced in the March budget which have reduced the expected costs of policyholder guarantees.

*Non-profit and unit linked*

The operating profit on non-profit and unit linked funds for the half year ended 30 June 2014 increased by £100 million to £205 million, from £105 million for the half year ended 30 June 2013. The increase compared to the prior period reflects higher one-off positive impacts of £138 million (£24 million at 30 June 2013) from modelling enhancements reflecting the implementation of the Group's new actuarial modelling system and refinements to the modelling of credit default risk, together with the impact of balance sheet reviews conducted in the period.

*Longer term return on owners' funds*

The longer term return on owners' funds for the half year ended 30 June 2014 decreased by £2 million to £5 million, from £7 million for the half year ended 30 June 2013. The reduction compared to the prior year principally reflects the upstreaming of dividends in the period.

*Management services*

The operating profit for management services reduced by £2 million, from £18 million for the half year ended 30 June 2013 to £16 million for the half year ended 30 June 2014. The decrease compared to the prior year reflects the impacts of life company run-off and the transfer of annuity policies to Guardian Assurance in 2013, partly offset by lower staff costs.

***Ignis Asset Management***

The operating profit for Ignis Asset Management of £17 million for the half year ended 30 June 2014 decreased by £2 million from £19 million for the half year ended 30 June 2013. Operating profit has been impacted by lower life company revenue from asset run-off, higher staff incentive costs and lower performance fees, partly offset by continued growth in third party business. Following its divestment on 1 July 2014, Ignis has been classified as a discontinued operation.

***Group costs***

Group costs include head office expenses as well as the net interest income/expense on the Group's defined benefit pension schemes. Group costs decreased by £4 million, from costs of £11 million for the half year ended 30 June 2013 to costs of £7 million for the half year ended 30 June 2014.

The decrease in Group costs compared to the prior period relates to lower pension scheme costs, reflecting a lower opening IAS 19 pension scheme liability for the Pearl Group Staff Pension Scheme and a higher opening IAS 19 pension scheme asset for the PGL Pension Scheme. Group costs in the period have also benefited from reduced Group recharges reflecting lower staff costs.

### Reconciliation of the Group's IFRS operating profit

The following table reconciles the Group's operating profit before tax to the IFRS result after tax for the half years ended 30 June 2014 and 2013.

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013 Restated[1]** |
| | *(£ million)* *(unaudited)* | |
| **Operating profit before adjusting items** | **266** | **186** |
| Investment return variances and economic assumption changes on long-term business | 59 | (13) |
| Variance on owners' funds | — | (20) |
| Amortisation of acquired in-force business and other intangibles | (55) | (60) |
| Non-recurring items | 9 | (40) |
| **Profit before finance costs attributable to owners** | **279** | **53** |
| Finance costs attributable to owners | (48) | (65) |
| **Profit/(loss) before tax attributable to owners**: | | |
| From continuing operations | **258** | 16 |
| From discontinued operations | **(27)** | (28) |
| | **231** | **(12)** |
| Tax charge attributable to owners from continuing operations | (49) | (2) |
| Tax credit attributable to owners from discontinued operations | 9 | 6 |
| **Profit/(loss) for the period attributable to owners** | **191** | **(8)** |

Note:

(1) As stated in the 2014 Half Year Report and Accounts, the relevant figures have been restated due to a change in accounting policy for the adoption of IFRS 10 and IFRS 11. See "*Changes in Accounting Policies*" above. In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*" above.

### *Investment return variances and economic assumption changes on long-term business*

Overall, the life companies had positive investment variances and economic assumption changes of £59 million for the half year ended 30 June 2014 which includes the minority share of the result of the consolidated UKCPT property investment structure of £37 million. The remaining positive variance reflects the impact of positive property returns and changes in inflation assumptions, partly offset by losses on equity hedging positions held by certain life funds on an economic basis.

The Phoenix Life business had negative investment return variances and economic assumption changes of £13 million for the half year ended 30 June 2013 primarily driven by losses on equity hedging positions held by certain life funds on an economic basis.

### *Variance on owners' funds*

The negative variance on owners' funds of £20 million for the half year ended 30 June 2013 relates to fair value losses on swap and equity hedging positions held within the shareholder funds. Interest rate swaps held by the holding companies and the life company shareholder funds were closed out in the second half of 2013 and the remaining instruments held have given rise to minor offsetting movements in the six months prior to 30 June 2014.

### *Amortisation of acquired in-force business and other intangibles*

The amortisation of acquired in-force business and other intangible assets for the half year ended 30 June 2014 decreased to £55 million, from £60 million for the half year ended 30 June 2013 in line with the run-off profile of the acquired businesses.

### *Non-recurring items*

Non-recurring items for the half year ended 30 June 2014 of £9 million income include income received by PGH1 of £68 million in relation to the close out of the PGL Pension Scheme longevity indemnity agreement with the with-profit funds, partly offset by costs of £14 million arising from external regulatory changes with respect to the cap on workplace pension charges, £27 million of capitalised costs in respect of VAT on future investment expenses arising as a result of the divestment of Ignis, corporate project costs of £11 million and £7 million of costs associated with net other items.

Non-recurring items for the half year ended 30 June 2013 of £40 million expense include arrangement and structuring fees of £21 million associated with the re-terming of the Impala Facility, regulatory change and systems transformation costs of £10 million, and restructuring costs and other one-off items of £9 million.

### *Finance costs attributable to owners*

The Group's finance costs attributable to owners for the half year ended 30 June 2014 decreased by £17 million to £48 million, from £65 million for the half year ended 30 June 2013 mainly reflecting the closure of the Group's interest rate swap arrangements in the second half of 2013 which were responsible for a net finance charge in the comparative period.

### *Tax attributable to owners*

Tax attributable to owners is discussed in the "*Results of Operations for the Group under IFRS for the half years ended 30 June 2014 and 2013*" above.

## Results of Operations for the Group under IFRS for the Years ended 31 December 2013, 2012 and 2011

The table below sets forth the Group's combined results of operations under IFRS for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 Restated(1) | 2012 Restated(2) | 2011 |
| | | *(£ million)* | |
| | *(unaudited)* | *(audited)* | |
| Gross premiums written | 1,333 | 1,609 | 1,473 |
| Premiums ceded to reinsurers | 11 | (5,173) | (85) |
| **Net premiums written** | **1,344** | **(3,564)** | **1,388** |
| Fees | 132 | 157 | 170 |
| Net investment income | 2,747 | 4,600 | 4,920 |
| **Total revenue (net of reinsurance payable)** | **4,223** | **1,193** | **6,478** |
| Gain on transfer of business | 42 | — | — |
| Other operating income | 7 | 13 | 12 |
| **Net income** | **4,272** | **1,206** | **6,490** |
| Net policyholder claims and benefits incurred | (1,742) | 940 | (5,844) |
| Change in investment contract liabilities | (1,156) | (750) | 260 |
| Total administrative expenses(3) | (460) | (603) | (624) |
| Net (income)/expense attributable to unit holders | (331) | (111) | 131 |
| Other operating expenses(4) | (112) | (125) | (166) |
| **Profit before finance costs and tax** | **471** | **557** | **247** |
| Finance costs | (230) | (215) | (251) |
| **Profit/(loss) for the year before tax** | **241** | **342** | **(4)** |
| Owners' tax | (26) | 115 | 79 |
| Policyholder tax | 27 | (33) | (173) |
| Tax credit/(charge) | 1 | 82 | (94) |
| **Profit/(loss) from continuing operations for the year** | **242** | **424** | **(98)** |
| Loss from discontinued operations, net of tax | (35) | — | — |
| Profit/ (loss) for the year | **207** | **424** | **(98)** |
| Attributable to: | | | |
| Owners of the parent | 145 | 407 | (131) |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 Restated(1) | 2012 Restated(2) | 2011 |
| | | *(£ million)* | |
| | *(unaudited)* | *(audited)* | |
| Non-controlling interests .................................................. | 62 | 17 | 33 |
| | **207** | **424** | **(98)** |

Notes:

(1) As set out in the Interim Financial Statements, the relevant figures have been restated due to the adoption of IFRS 10 Consolidated Financial statements and IFRS 11 Joint Arrangements. See "*Changes in accounting policies*". In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*". These restatements have been subject to a review in accordance with the International Standard on Review Engagements 2410 (UK and Ireland), 'Review of interim Financial Information Performed by the Independent Auditor of the Entity' and have not been subject to audit.

(2) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). See "*Changes in accounting policies*" above.

(3) Total administrative expenses comprise "Administrative expenses" and "Amortisation of customer relationships and other intangibles".

(4) Other operating expenses comprise "Acquisition costs", "Change in present value of future profits" and "Amortisation of acquired in-force business".

## Net premiums written

The Group's net premiums written for the year ended 31 December 2013 increased by £4,908 million to positive £1,344 million, from negative £3,564 million for the year ended 31 December 2012 and the Group's net premiums written for the year ended 31 December 2012 decreased by £4,952 million to negative £3,564 million, from positive £1,388 million for the year ended 31 December 2011. The large negative impact in 2012 was primarily as a result of the Group entering into a reinsurance agreement with Guardian Assurance to reassure selected portfolios of its pension annuity repayment liabilities with effect from 1 July 2012. The Group paid a reinsurance premium of £5,104 million to Guardian Assurance.

## Fees

The table below sets forth a breakdown of the Group's fees for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013(1) | 2012 | 2011 |
| | | *(£ million)* | |
| | *(unaudited)* | *(audited)* | |
| Fund management based fees .......................................... | 39 | 63 | 75 |
| Investment contract income ............................................ | 93 | 94 | 95 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013[1] | 2012 | 2011 |
| Fees | 132 | 157 | 170 |

Note:

(1) As set out in the Interim Financial Statements, the relevant figures have been restated due to the adoption of IFRS 10 Consolidated Financial statements and IFRS 11 Joint Arrangements. See "*Changes in accounting policies*". In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*". These restatements have been subject to a review in accordance with the International Standard on Review Engagements 2410 (UK and Ireland), 'Review of interim Financial Information Performed by the Independent Auditor of the Entity' and have not been subject to audit.

The Group's fees for the year ended 31 December 2013 decreased by £25 million to £132 million, from £157 million for the year ended 31 December 2012. This movement was primarily due to classifying Ignis Asset Management as a discontinued operation during the period.

The Group's fees for the year ended 31 December 2012 decreased by £13 million to £157 million, from £170 million for the year ended 31 December 2011. This decrease was primarily due to lower performance fees following the restructuring of the Ignis Asset Management joint ventures and Life Company run-off, partly offset by growth in third party investment management business.

### Net investment income

The table below sets forth a breakdown of the Group's net investment income for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013[1] Restated | 2012 Restated[2] | 2011 |
| | | *(£ million)* | |
| | *(unaudited)* | *(audited)* | |
| Interest income on loans and receivables | 11 | 41 | 56 |
| Interest income on financial assets designated at fair value through profit or loss on initial recognition | 1,552 | 2,433 | 2,554 |
| Dividend income | 687 | 674 | 679 |
| Rental income | 80 | 88 | 86 |
| Interest (expense)/income on defined benefit pension schemes | (1) | 15 | (11) |
| **Investment income** | 2,329 | 3,251 | 3,364 |
| Impairment losses on loans and receivables | — | — | (3) |
| **Fair value gains/(losses)** | | | |
| Loans and receivables | 10 | — | — |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013(1) Restated | 2012 Restated(2) | 2011 |
| | | (£ million) | |
| | *(unaudited)* | *(audited)* | |
| Financial assets at fair value through profit or loss | | | |
| *Held for trading—derivatives* | (314) | (354) | 960 |
| *Designated upon initial recognition* | 650 | 1,788 | 595 |
| Investment property | 72 | (85) | 4 |
| **Fair value gains** | 418 | 1,349 | 1,556 |
| **Net investment income** | 2,747 | 4,600 | 4,920 |

Notes:

(1) As set out in the Interim Financial Statements, the relevant figures have been restated due to the adoption of IFRS 10 Consolidated Financial statements and IFRS 11 Joint Arrangements. See "*Changes in accounting policies*". In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*". These restatements have been subject to a review in accordance with the International Standard on Review Engagements 2410 (UK and Ireland), 'Review of interim Financial Information Performed by the Independent Auditor of the Entity' and have not been subject to audit.

(2) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). See "*Changes in accounting policies*" above.

The Group's net investment income for the year ended 31 December 2013 decreased by £1,853 million, from £4,600 million for the year ended 31 December 2012 to £2,747 million for the year ended 31 December 2013. This decrease reflects the impact of increased yields on the fair value of the fixed income portfolio, negative swap returns, reduced stock lending and reduced investment income following the £5 billion annuity transfer to Guardian Assurance and the reclassification of Ignis Asset Management income to discontinued operations; partly offset by positive equity and property returns during the period.

The Group's net investment income for the year ended 31 December 2012 decreased by £320 million, from £4,920 million for the year ended 31 December 2011 to £4,600 million for the year ended 31 December 2012. This change was primarily attributable to fair value losses on property and derivative positions partly offset by increased asset values following a decline in yields and narrowing credit spreads during the period. In addition, investment income was lower following the £5 billion annuity transfer to Guardian Assurance.

### Total revenue (net of reinsurance payable)

As a result of the foregoing factors, the Group's total revenue (net of reinsurance payable) increased by £3,030 million between 2012 and 2013, from £1,193 million for the year ended 31 December 2012 to total revenue of £4,223 million for the year ended 2013. The Group's total revenue (net of reinsurance payable) decreased by £5,285 million between 2011 and 2012, from £6,478 million for the year ended 31 December 2011 to total revenue of £1,193 million for the year ended 31 December 2012.

### Gain on transfer of business

The Group entered into a reinsurance agreement, effective 1 July 2012, to reinsure certain portfolios of the Group's annuity liabilities to Guardian in exchange for the transfer of financial assets of £5.1 billion. The business was transferred to Guardian on 30 September 2013 using a scheme under Part VII of the FSMA approved by the High Court on 12 September 2013.

As part of the Part VII transfer, the Group paid £78 million consideration to Guardian in connection with the ongoing servicing of the transferred policies. Net liabilities disposed of were £143 million and the Group recognised a gain on transfer of £65 million, comprising £42 million within gain on transfer of business and £23 million within tax (charge)/credit attributable to owners in the consolidated income statement.

### Other operating income

The Group's other operating income for the year ended 31 December 2013 decreased by £6 million to £7 million, from £13 million for the year ended 31 December 2012 reflecting lower service income from outsourcing activities in 2013.

The Group's other operating income for the year ended 31 December 2012 was stable, increasing by only £1 million, to £13 million, from £12 million for the year ended 31 December 2011.

### Net income

As a result of the foregoing factors, the Group's net income increased by £3,041 million between 2012 and 2013, from £1,206 million for the year ended 31 December 2012 to £4,247 million for the year ended 31 December 2013.

The Group's net income decreased by £5,284 million between 2011 and 2012, from £6,490 million for the year ended 31 December 2011 to £1,206 million for the year ended 31 December 2012.

### Net policyholder claims and benefits incurred

The table below sets forth a breakdown of the Group's net policyholder claims and benefits incurred for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | | *(£ million)* | |
| | | *(audited)* | |
| Policyholder claims | (4,830) | (5,166) | (4,968) |
| Reinsurance recoveries | 464 | 364 | 224 |
| **Net policyholder claims** | (4,366) | (4,802) | (4,744) |
| Change in insurance contract liabilities | 3,411 | 645 | (1,338) |
| Change in reinsurers' share of insurance contract liabilities | (710) | 5,142 | 222 |
| Transfer (to)/from unallocated surplus | (77) | (45) | 16 |
| **Net change in insurance contract liabilities** | 2,624 | 5,742 | (1,100) |
| **Net policyholder claims and benefits incurred** | (1,742) | 940 | (5,844) |

### *Net policyholder claims*

The Group's net policyholder claims for the year ended 31 December 2013 decreased by £436 million to £4,366 million, from £4,802 million for the year ended 31 December 2012. This decrease in net policyholder claims is consistent with the nature of the closed life fund business model.

The Group's net policyholder claims for the year ended 31 December 2012 increased by £58 million to £4,802 million, from £4,744 million for the year ended 31 December 2011. Net policyholder claims increased primarily as a result of an increase in maturities and higher maturity values for policies with guaranteed annuity options.

### *Net change in insurance contract liabilities*

The net change in the Group's insurance contract liabilities for the year ended 31 December 2013 was a change of £3,118 million, to income of £2,624 million, from income of £5,742 million for the year ended 31 December 2012. This decrease was primarily as a result of the recognition in 2012 of a £5 billion reinsurance asset following the Guardian Assurance annuity transfer, partly offset by the impact of increases in gilt yields during 2013.

The net change in the Group's insurance contract liabilities for the year ended 31 December 2012 was a change of £6,842 million, to income of £5,742 million, from an expense of £1,100 million for the year ended 31 December 2011 primarily due to the recognition of a £5 billion reinsurance asset following the Guardian Assurance annuity transfer and higher net policyholder claims.

## Change in investment contract liabilities

The change in the Group's investment contract liabilities for the year ended 31 December 2013 was a change of £406 million to an expense of £1,156 million, as compared to an expense of £750 million for the year ended 31 December 2012. The change was primarily due to the impact of positive investment performance on the assets underlying the Group's investment contract liabilities, notably equity returns in the period.

The change in the Group's investment contract liabilities for the year ended 31 December 2012 was a change of £1,010 million to an expense of £750 million, as compared to income of £260 million for the year ended 31 December 2011. This change was primarily due to increases in the value of the assets underlying the Group's investment contract liabilities, primarily as a result of improved equity market conditions.

## Total administrative expenses

The table below sets forth a breakdown of the Group's total administrative expenses for the years ended 31 December 2013, 2012 and 2011.

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013 Restated[(1)]** | **2012 Restated[(2)]** | **2011** |
| | | *(£ million)* | |
| | *(unaudited)* | *(audited)* | |
| Administrative expenses | (444) | (585) | (606) |
| Amortisation of customer relationships and other intangibles | (16) | (18) | (18) |
| Total administrative expenses | **(460)** | **(603)** | **(624)** |

Notes:

(1) As set out in the Interim Financial Statements, the relevant figures have been restated due to the adoption of IFRS 10 Consolidated Financial statements and IFRS 11 Joint Arrangements. See "*Changes in accounting policies*". In addition, following the Divestment on 1 July 2014, the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*". These restatements have been subject to a review in accordance with the International Standard on Review Engagements 2410 (UK and Ireland), 'Review of interim Financial Information Performed by the Independent Auditor of the Entity' and have not been subject to audit.

(2) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). See "*Changes in accounting policies*" above.

The Group's total administrative expenses for the year ended 31 December 2013 decreased by £143 million to £460 million, from £603 million for the year ended 31 December 2012, of which £106 million decrease is attributable to the reclassification of Ignis Asset Management as a discontinued operation in 2013. The remaining decrease of £37 million is attributable to reduced professional fees and outsourcing costs in 2013.

The Group's total administrative expenses for the year ended 31 December 2012 decreased by £21 million to £603 million, from £624 million for the year ended 31 December 2011, which is consistent with the Group's closed life fund business model.

### Net (income)/expense attributable to unit holders

The Group's net income attributable to unit holders for the year ended 31 December 2013 was £331 million, as compared to a net income attributable to unit holders of £111 million for the year ended 31 December 2012. This increase was primarily due to an increase in the net asset value attributable to unit holders reflecting the impact of adoption of IFRS 10 which resulted in the consolidation of a larger number of collective investment vehicles together with an increase in third party ownership of certain vehicles and positive investment market performance in the period.

The Group's net income attributable to unit holders for the year ended 31 December 2012 was £111 million, as compared to a net expense attributable to unit holders of £131 million for the year ended 31 December 2011. This change was primarily due to positive equity markets in 2012 as described under change in investment contract liabilities above.

### Other operating expenses

The table below sets forth a breakdown of the Group's other operating expenses for the years ended 31 December 2013, 2012 and 2011.

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | | *(£ million)* *(audited)* | |
| Acquisition costs | (10) | (3) | (13) |
| Change in present value of future profits | 9 | — | (19) |
| Amortisation of acquired in-force business | (111) | (122) | (134) |
| **Total other operating expenses** | **(112)** | **(125)** | **(166)** |

Other operating expenses, which include acquisition costs, changes in present value of future profits and amortisation of acquired in-force business, for the year ended 31 December 2013 decreased by £13 million to £112 million, from £125 million for the year ended 31 December 2012. This decrease was primarily due to the positive change in the present value of future profits (reflecting equity performance in the period) and a decrease in the amortisation of acquired in-force business reflecting the run-off profile of the acquired business and the impact of the Guardian Assurance annuity transfer which resulted in the derecognition of related intangible assets.

Other operating expenses, which include acquisition costs, changes in present value of future profits and amortisation of acquired in-force business, for the year ended 31 December 2012 decreased by £41 million to £125 million, from £166 million for the year ended 31 December 2011. This decrease was primarily due to a more stable present value of future profits and a decrease in the amortisation of acquired in-force business following the Guardian Assurance annuity transfer whereby the associated present value of future profits has not been amortised following its classification as held for sale.

### Profit before finance costs and tax

As a result of the foregoing factors, the Group's profit before finance costs and tax decreased by £86 million between 2012 and 2013, from a profit of £557 million for the year ended 31 December 2012 to a profit of £471 million for the year ended 31 December 2013. The Group's profit before finance costs and tax increased by £310 million between 2011 and 2012, from a profit of £247 million for the year ended 31 December 2011 to a profit of £557 million for the year ended 31 December 2012.

### Finance cost

The Group's finance costs for the year ended 31 December 2013 increased by £15 million to £230 million, from £215 million for the year ended 31 December 2012. The increase was primarily due to higher interest charges following the re-terming of the Impala Facility.

The Group's finance costs for the year ended 31 December 2012 decreased by £36 million to £215 million, from £251 million for the year ended 31 December 2011. This reduction was primarily due to lower capital values following repayments and lower LIBOR rates over the year.

### Profit/(loss) for the year before tax

As a result of the foregoing factors, the Group's profit for the year before tax changed by £101 million between 2012 and 2013, from a profit of £342 million for the year ended 31 December 2012 to a profit of £241 million for the year ended 31 December 2013.

The Group's profit/(loss) for the year before tax changed by £346 million between 2011 and 2012, from a loss of £4 million for the year ended 31 December 2011 to a profit of £342 million for the year ended 31 December 2012.

### Tax credit/(charge)

In addition to paying Owners' tax, the Group's life businesses pay Policyholder tax. Policyholder tax is included in the total tax credit.

The table below sets forth a breakdown of the Group's tax credit between Owners' tax and Policyholder tax for the years ended 31 December 2013, 2012 and 2011.

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2013 Restated[1]** | **2012 Restated[2]** | **2011** |
| | | *(£million)* | |
| | *(unaudited)* | *(audited)* | |
| Owners' tax credit | (26) | 115 | 79 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 Restated(1) | 2012 Restated(2) | 2011 |
| | | *(£million)* | |
| | *(unaudited)* | *(audited)* | |
| Policyholder tax charge | (27) | (33) | (173) |
| **Tax credit/(charge)** | 1 | 82 | (94) |

Notes:

(1) As set out in the Interim Financial Statements the 2013 figures have been restated to disclose the results of Ignis Asset Management as discontinued operations. See "*Loss from discontinued operations, net of tax*". These restatements have been subject to a review in accordance with the International Standard on Review Engagements 2410 (UK and Ireland), 'Review of interim Financial Information Performed by the Independent Auditor of the Entity' and have not been subject to audit.

(2) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). See "*Changes in accounting policies*" above.

For the year ended 31 December 2013, the Group incurred a tax charge of £26 million, on a profit before Owners' tax of £268 million. The difference between the actual tax charge of £26 million and the expected charge (based on the UK Corporation tax rate of 23.25 per cent.) of £63 million is primarily driven by a £33 million benefit in deferred tax liabilities as a result of the ongoing reductions in UK corporate tax rates, and £39 million due to certain profits being non-taxable or taxed at a different rate to 23.25 per cent. This has been partly offset by adverse adjustments to the shareholder tax charge in respect of prior years and the impact of certain disallowable expenses.

For the year ended 31 December 2012, the Group received a tax credit of £115 million, despite a profit before Owners' tax of £309 million. The difference between the actual tax credit of £115 million and the expected charge (based on the UK Corporation tax rate of 24.5 per cent.) of £75 million is primarily driven by the valuation of previously unrecognised tax losses of £85 million, a £36 million benefit as a result of the ongoing reductions in UK corporate tax rates, and £64 million due to certain profits being non-taxable or taxed at a different rate to 24.5 per cent.

For the year ended 31 December 2011, the Group received a tax credit of £79 million. The difference between the actual tax credit of £79 million and the expected credit (based on the UK Corporation tax rate of 26.5 per cent.) of £47 million primarily reflects the benefit of a decrease of £41 million in deferred tax liabilities as a result of the ongoing reduction in UK corporation tax rates and a £47 million benefit from the resolution of legacy tax issues partly offset by the £49 million impact of losses and deductions not fully valued by the Group, or for which certain profits were taxed at a different rate to 26.5 per cent.

### Profit/(loss) from continuing operations for the year

As a result of the foregoing factors, the Group's profit for the year changed by £182 million between 2012 and 2013, from a profit of £424 million for the year ended 31 December 2012 to a profit of £242 million for the year ended 31 December 2013.

The Group's profit/(loss) for the year changed by £522 million between 2011 and 2012, from a loss of £98 million for the year ended 31 December 2011 to a profit of £424 million for the year ended 31 December 2012.

### Loss from discontinued operations, net of tax

On 25 March 2014, the Group and Standard Life Investments signed a disposal agreement under which Standard Life Investments agreed to acquire the entire issued share capital of Ignis Asset Management. The Divestment was completed on 1 July 2014 and has been included as a discontinued operation in the restated 31 December 2013 results.

The loss net of tax of £35 million for the year ended 31 December 2013 excludes intra-group fee income of £102 million.

### Profit/(loss) for the year

As a result of the foregoing factors, the Group's profit for the year decreased by £217 million between 2012 and 2013, from a profit of £424 million for the year ended 31 December 2012 to a profit of £207 million for the year ended 31 December 2013.

The Group's profit/(loss) for the year increased by £522 million between 2011 and 2012, from a loss of £98 million for the year ended 31 December 2011 to a profit of £424 million for the year ended 31 December 2012.

### Non-controlling interests

The £20 million, £20 million and £15 million profit attributable to the Perpetual Securities in 2013, 2012 and 2011, respectively, relate to the interest coupon on the Perpetual Securities. Such Perpetual Securities receive coupon interest only and do not otherwise share in the profits of the Group. For further information, see "*General Information—Material Contracts of the Guarantor—Tier 1 Bonds*" and "*Results of Operations for the Group under IFRS for the half years ended 30 June 2014 and 2013—Non-controlling interests*".

As the Group's policyholder long-term funds hold over 50 per cent. of the units of UK Commercial Property Trust Limited, in accordance with IFRS, 100 per cent. of the trust's profits and losses are consolidated with the Group's financial results. The profit/(loss) of £42 million, £(3) million and £18 million for the years ended 31 December 2013, 2012 and 2011, respectively, represent the share of the losses and profits, respectively, of the trust that are attributable to the external investors who hold the remaining units in the trust.

## IFRS Operating Profit for the Group for the Years ended 2013, 2012 and 2011

Operating profit as presented by the Group is a non-GAAP financial measure and is not a measure of financial performance under IFRS. The Group presents operating profit because it is less affected by short-term external market impacts than IFRS measures of performance and therefore in the Group's view it provides a better basis for assessing trends in the operational performance of the Group over time. Operating profit represents the normalised long-term investment return in that it excludes short-term fluctuations in investment returns and other items considered to be non-operating by the Group's management. Operating profit should not be considered in isolation as an alternative to profit or loss for the year before tax or other data presented in the Group's financial statements as indicators of financial performance. Because it is not determined in accordance with IFRS, operating profit as presented by the Group may not be comparable to other similarly titled measures of performance of other companies.

Operating profit is based on expected investment returns on financial investments backing owners and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. Operating profit is presented before the deduction of the following non-operating items:

- amortisation of acquired in-force business and other intangibles; and

- non-recurring items.

For a reconciliation of operating profit to IFRS profit/(loss) for the year, see "*Reconciliation of the Group's operating profit*" of this section.

### Analysis of the Group's operating profit

The following table is an analysis of the Group's operating profit for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012 Restated**[(1)] | **2011** |
| | | *(£ million)* *(audited)* | |
| Phoenix Life | 414 | 399 | 395 |
| Ignis Asset Management | 49 | 43 | 46 |
| Group costs | (24) | (13) | (54) |
| **Operating profit before tax** | **439** | **429** | **387** |

Note:

(1) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). See "*Changes in accounting policies*" above.

#### *Phoenix Life*

Operating profit for Phoenix Life is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities (being the release of prudential margins and the interest cost of unwinding the discount on the liabilities).

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. Changes due to economic items which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are accounted for outside of operating profit.

The following table sets forth a breakdown of the Group's operating profit for Phoenix Life for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | | *(£ million)* *(audited)* | |
| With-profit | 106 | 75 | 69 |
| With-profit where internal capital support provided | 20 | (14) | 66 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | *(£ million)* *(audited)* | |
| Non-profit and unit linked | 243 | 288 | 206 |
| Longer term return on owners' funds | 13 | 22 | 37 |
| Management services | 32 | 28 | 17 |
| **Phoenix Life operating profit** | 414 | 399 | 395 |

*With-profit*

The with-profit operating profit represents shareholders' one-ninth share of policyholder with-profit bonuses. The with-profit operating profit for the year ended 31 December 2013 increased by £31 million to £106 million, from £75 million for the year ended 31 December 2012 primarily due to higher bonus rates, increased estate distribution and a £10 million benefit from shareholder transfers that were underestimated in prior years.

The with-profit operating profit for the year ended 31 December 2012 increased by £6 million to £75 million, from £69 million for the year ended 31 December 2011. This increase was primarily due to higher terminal bonuses following an increase in maturities, and improved bonus rates in certain funds.

*With-profit where internal capital support provided*

The operating profit/(loss) on with-profit funds where internal capital support has been provided changed by £34 million to a profit of £20 million for the year ended 31 December 2013, from a loss of £14 million for the year ended 31 December 2012. This increase reflects the positive impact of the adoption of revised assumptions for longevity improvement. The 2012 comparative result was adversely impacted by the reduction in the assumed surrender rates in funds with valuable policyholder guarantees.

The operating (loss)/profit on with-profit funds where internal capital support has been provided changed by £80 million to a loss of £14 million for the year ended 31 December 2012, from a profit of £66 million for the year ended 31 December 2011. This change primarily relates to the impact of a reduction in the assumed surrender rates in funds with valuable policyholder guarantees of £28 million adverse (year ended 31 December 2011: £5 million adverse). The 2011 comparative result also benefited from the positive impacts of one-off modelling improvements (£21 million) and data cleansing activities (£18 million) recognised in that period.

*Non-profit and unit linked*

The operating profit on non-profit and unit linked funds for the year ended 31 December 2013 decreased by £45 million to £243 million, from £288 million for the year ended 31 December 2012. The reduction compared to the prior year reflects lower expected returns of £128 million (2012: £136 million), reduced new business from vesting annuities of £36 million (2012: £40 million) and lower positive impacts of £88 million from modelling improvements, policy harmonisation and data cleansing projects (2012: £117 million).

The operating profit on non-profit and unit linked funds for the year ended 31 December 2012 increased by £82 million to £288 million, from £206 million for the year ended 31 December 2011. The operating profit on non-profit and unit-linked funds includes margin emergence of £133 million (year ended 31 December 2011: £162 million), return on surplus assets of £1 million (year ended 31 December 2011: £10 million), new business from vesting annuities of £40 million (year ended 31 December 2011: £27 million) and positive longevity experience of £19 million. Modelling improvements and policy harmonisations had a net positive impact of £117 million in 2012 (year ended 31 December 2011: £33m). The net impact of demographic assumption changes was broadly neutral for the period, whereas the 2011 result was impacted by negative assumption changes of £29 million.

*Longer term return on owners' funds*

The longer term return on owners' funds for the year ended 31 December 2013 decreased by £9 million to £13 million, from £22 million for the year ended 31 December 2012. The reduction compared to the prior year reflects the upstreaming of dividends in the period and lower expected investment return assumptions for 2013 for non-cash assets (calculated by reference to the market yields on risk-free fixed interest assets at the start of the year).

The longer term return on owners' funds for the year ended 31 December 2012 decreased by £15 million to £22 million, from £37 million for the year ended 31 December 2011. The reduction compared to the prior year reflects the upstreaming of dividends in the period and lower expected investment return assumptions for 2012 for non-cash assets (calculated by reference to the market yields on risk-free fixed interest assets at the start of the year). The investment policy for managing these assets remains prudent.

*Management services*

The operating profit for management services for the year ended 31 December 2013 increased by £4 million to £32 million, from £28 million for the year ended 31 December 2012. The increase compared to the prior year reflects lower outsource partner costs and the positive impacts of the Group's cost management activities.

The operating profit for management services increased by £11 million between 2011 and 2012, from £17 million in 2011 to £28 million in 2012. The increase compared to the prior year reflects reduced outsourcer costs and the positive impacts of cost reduction activities.

***Ignis Asset Management***

The operating profit for Ignis Asset Management for the year ended 31 December 2013 increased by £6 million to £49 million, from £43 million for the year ended 2012. This reflects the fact that growth in third party revenue and strong investment performance have offset the natural run-off of Life Company assets and the impact of restructuring the former joint ventures.

The operating profit for Ignis Asset Management for the year ended 31 December 2012 decreased by £3 million to £43 million, from £46 million for the year ended 31 December 2011. This decrease was primarily due to lower performance fees generated by one of the joint ventures and Life Company run-off, partly offset by growth in third party business.

***Group costs***

Group costs for the year ended 31 December 2013 increased by £11 million to £24 million, from £13 million for the year ended 31 December 2012. The increase in Group costs compared to the prior year relates primarily to defined benefit pension scheme costs which have increased compared to the prior year. This is driven by a higher net interest cost, reflecting the opening net defined benefit liability position compared to the opening net defined benefit asset position in the prior year.

Group costs include head office expenses as well as the net interest income/(expense) on the Group's defined benefit pension schemes. Group costs decreased by £41 million between 2011 and 2012, from costs of £54 million in 2011 to costs of £13 million in 2012. The 2012 result includes a restatement for amendments to IAS 19 Employee Benefits which changed the basis for determining the income or expense related to defined benefit schemes, the 2011 and 2010 results presented above have not been restated for this change in accounting policy. The restatement in 2012 reduced Group costs by £15 million. The balance of the decrease primarily reflects an increased focus on cost management and a lower non-adjusted IAS 19 pension scheme charge as a result of a lower net interest cost.

### Reconciliation of the Group's IFRS operating profit

The following table reconciles the Group's operating profit before tax to IFRS profit after tax for the years ended 31 December 2013, 2012 and 2011.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 Restated(1) | 2011 |
| | | *(£ million)* *(audited)* | |
| **Operating profit before adjusting items** | 439 | 429 | 387 |
| Investment return variances and economic assumption changes on long-term business | 64 | 1 | (338) |
| Variance on owners' funds | (31) | (13) | 9 |
| Amortisation of acquired in-force business and other intangibles | (118) | (127) | (139) |
| Non-recurring items | (11) | 130 | 14 |
| **Profit/(loss) before finance costs attributable to owners** | 343 | 420 | (67) |
| Finance costs attributable to owners | 126 | (111) | (110) |
| **Profit/(loss) before the tax attributable to owners** | 217 | 309 | (177) |
| Tax credit attributable to owners | (10) | 115 | 79 |
| **Profit/(loss) for the year attributable to owners** | 207 | 424 | (98) |

Note:

(1) As set out in the Audited Financial Statements, the relevant figures have been restated due to a change in accounting policies for amendments to IAS 19 (Employee Benefits). See "*Changes in accounting policies*" above.

#### *Investment return variances and economic assumption changes on long-term business*

The Phoenix Life business had positive investment return variances and economic assumption changes of £64 million in 2013. The positive impacts of narrowing credit spreads, increasing yields and improved property returns have been partly offset by losses on equity hedging positions held within the shareholder funds.

Overall, the Phoenix Life business had positive investment return variances and economic assumption changes of £1 million in 2012. The positive impact of narrowing credit spreads in the period was largely offset by the impacts of falling yields on short asset positions against the IFRS basis liabilities, negative property returns and fair value losses on equity hedging positions held by certain life funds on an economic basis.

The Phoenix Life business had unfavourable investment return variances and economic assumption changes of £338 million in 2011. This reflected the widening of credit spreads and the falling yield curve as the increase in liabilities calculated on a prudent basis was not fully offset by a corresponding increase in assets.

***Variance on owners' funds***

The negative variance on owners' funds of £31 million for 2013 was driven by fair value losses on credit default swaps, futures and interest rate swaps held within the shareholder funds of the Life Companies as part of the Group's hedging strategies. This was partly offset by a fair value gain on interest rate swaps held by the Holding Companies. All interest rate swaps held by the shareholder funds and Holding Companies were closed out during 2013.

The negative variance on owners' funds of £13 million for 2012 was driven by fair value losses on credit default swaps held in the shareholder funds.

The favourable variance on owners' funds of £9 million for 2011, mainly related to fair value gains on swaps and gilts held in the shareholder funds.

***Amortisation of acquired in-force business and other intangibles***

The amortisation of acquired in-force business and other intangibles assets for the year ended 31 December 2013 decreased to £118 million, from £127 million for the year ended 31 December 2012 in line with the run-off of the acquired businesses. There was also a decrease in the amortisation of acquired in-force business which totalled £99 million (2012: £109 million) and amortisation of other intangible assets which totalled £19 million (2012: £18 million).

The amortisation of acquired in-force business and other intangibles assets for the year ended 31 December 2012 decreased to £127 million, from £139 million for the year ended 31 December 2011 in line with the run-off of the acquired businesses. There was also a decrease in the amortisation of acquired in-force business following the Guardian Assurance annuity transfer whereby the associated present value of future profits has not been amortised following classification as held for sale.

***Non-recurring items***

Non-recurring items in 2013 of negative £11 million include the gain of £42 million on completion of the legal transfer of annuity liabilities to Guardian Assurance, offset by arrangement and structuring fees of £21 million associated with the extinguishment and re-terming of the Impala Facility, regulatory change and systems transformation costs of £25 million (2012: £34 million) and a loss from a pension liability management exercise of £9 million (2012: £2 million). Net other items of positive £2 million (2012: £11 million) include a gain on the reinsurance arrangement with Guardian Assurance as a result of data review procedures, offset by corporate project costs.

Non-recurring items in 2012 of positive £130 million include £177 million in respect of the gain recognised upon entering into the reinsurance agreement with Guardian Assurance to transfer approximately £5 billion of annuity liabilities. This gain which reflects the prudence in the IFRS liabilities was partly offset by regulatory change and systems transformation costs of £28 million and restructuring costs of £19 million.

Non-recurring items in 2011 of positive £14 million include restructuring costs of £37 million and regulatory change and systems transformation costs of £21 million. These costs were offset by a gain of £37 million arising from closing the Group's pension schemes to future accrual and implementing a pension increase exchange programme and a £35 million recovery of historic costs under the management services agreements with the life division.

***Finance costs attributable to owners***

The Group's finance costs attributable to owners for the year ended 31 December 2013 increased by £15 million to £126 million, from £111 million for the year ended 31 December 2012. The Group's finance costs attributable to owners for the year ended 31 December 2012 increased by £1 million to £111 million, from £110 million for the year ended 31 December 2011.

***Tax attributable to owners***

Tax attributable to owners is discussed in the "*Results of Operations for the Group under IFRS for the years ended 31 December 2013, 2012 and 2011*" above.

## Group MCEV

### Overview

Industry professionals look to embedded value as a proxy for the value that is expected to emerge over the full life of the business currently on the books of a life insurance business.

Embedded value is an estimate of the economic worth of a life insurance business. It comprises the net assets of the business under IFRS and the present value of future cash flows from in-force business, excluding any value that may be generated by future new insurance business.

The key components of embedded value are:

- assets available for distribution to shareholders, or free assets; plus
- assets supporting the solvency requirements of the business, or required capital; plus
- the present value of future profits arising from the in-force business, or the value of in-force business.

Further detail of each component is provided below.

### Embedded Value Methodology

The Group's embedded value is based on a market-consistent methodology. Under this methodology, assets and liabilities are valued in line with market prices and consistently with each other.

The MCEV methodology adopted by the Group is in accordance with the MCEV Principles and guidance published by the CFO Forum in June 2008 and amended in October 2009, except that:

- risk-free rates have been defined as the annually compounded UK Government nominal spot curve plus 10 basis points rather than as a swap rate curve;
- no allowance for the cost of residual non-hedgeable risk ("**CNHR**") has been made because, in the opinion of the Directors, the Group operates a robust outsourcer model in terms of operational risk, does not write new business, is focused entirely on the back book, and has succeeded in closing out significant legacy risks. The theoretical value of CNHR is disclosed; and
- the asset management and management service companies values are calculated on an IFRS basis. Under CFO Forum principles and guidance productivity gains should not be recognised until achieved. This treatment is inconsistent with the cost profile of a closed fund where continual cost reductions are expected to maintain unit costs as the business runs off. In the opinion of the Directors, if the MCEV Principles and guidance were to be applied to the asset management and the management service companies, it would not provide a fair reflection of the Group's financial position. These companies are therefore reported alongside the Group's other holding companies at their IFRS net asset value.

### *Free Assets and Required Capital*

Free assets and required capital together comprise the net worth of the life insurance business.

For the Life Companies, net worth is defined as the market value of shareholder funds plus the shareholders' interest in surplus assets held in long-term business funds less the market value of any outstanding debt of the Life Companies.

For the Group's non-Life Companies, net worth is defined as the net assets of the companies on an IFRS basis less the market value of any outstanding debt of these companies.

MCEV allocates net worth between required capital, whose future distribution to shareholders is restricted, and free surplus, whose future distribution to shareholders is unrestricted.

For the Group, required capital is defined as the minimum regulatory capital requirement, which is the greater of Pillar 1 and Pillar 2 capital requirements plus the capital required under the Group's capital management policy.

Net worth in excess of required capital is free assets.

### *Value of In-Force Business*

The market consistent value of in-force businesses ("**VIF**") represents the present value of profits attributable to shareholders arising from the in-force business, less an allowance for the time value of financial options and guarantees embedded within life insurance contracts and frictional cost of required capital.

The approach adopted to calculate VIF combines deterministic and stochastic techniques (each of which is discussed in more detail below):

- Deterministic techniques have been used to value cash flows whose values vary in a linear fashion with market movements. These cash flows are valued using discount rates that reflect the risk inherent in each cash flow. In practice, it is not necessary to discount each cash flow at a different discount rate, as the same result is achieved by projecting and discounting all cash flows at the risk-free rate. This is known as the "certainty equivalent approach".
- Stochastic techniques have been used to value cash flows that have an asymmetric effect on cash flows to shareholders. Here, the calculation involves the use of stochastic models developed for the purposes of realistic balance sheet reporting.

### *Present value of future profits ("PVFP")*

The PVFP represents the present value of profits attributable to shareholders arising from the in-force business. The PVFP is calculated by projecting and discounting using risk-free rates, with an allowance for liquidity premiums where appropriate.

The projection is based on actively reviewed best estimate non-economic assumptions. Best estimate assumptions make appropriate allowances for expected future experience where there is sufficient evidence to justify it; for example in allowing for future mortality improvements on annuity business.

### *Cost of Capital*

Cost of capital is defined as the difference between the market value of shareholder-owned assets backing required capital and the present value of future releases of those assets allowing for future investment returns on that capital, investment expenses and taxes.

*Time value of financial options and guarantees ("TVFOGs")*

The Group's embedded value includes an explicit allowance for the time value of financial options and guarantees embedded within insurance contracts, including investment performance guarantees on participating business and guaranteed vesting annuity rates. The cost of these options and guarantees to shareholders is calculated using market-consistent stochastic models calibrated to the market prices of financial instruments as at the period end.

*CNHR*

The CNHR should allow for risks that can have an asymmetric impact on shareholder value to the extent these risks have not already been reflected in the PVFP or TVFOGs. The majority of such risks within the Group are operational and tax risks.

*Pension schemes*

The Group's embedded value allows for pension scheme deficits as calculated on an IFRS (IAS 19) basis, but no benefit is taken for pension scheme surpluses.

Under IFRIC 14, an interpretation of IAS 19, pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable would result in a surplus that would not be recoverable, a liability is recognised when the obligation arises. The IFRS IFRIC 14 adjustments are not reflected in the Group MCEV as the Group does not anticipate that its ultimate contributions into the pension schemes would result in an unrecoverable surplus.

**Group MCEV earnings for the half years ended 30 June 2014 and 2013**

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013** |
| | *(£ million)* *(unaudited)* | |
| **GROUP MCEV earnings** | | |
| Life MCEV operating earnings[(1)] | 181 | 165 |
| Management services operating profit | 16 | 18 |
| Ignis Asset Management operating profit | 17 | 19 |
| Group costs | (10) | (13) |
| **Group MCEV operating earnings before tax** | **204** | **189** |
| Economic variances on life business | (28) | (30) |
| Economic variances on non-life business | (37) | (43) |
| Other non-operating variances on life business | (132) | (3) |
| Non-recurring items on non-life business | 59 | (38) |
| Finance costs attributable to owners | (62) | (84) |
| **Group MCEV earnings before tax** | **4** | **(9)** |
| Tax charge on operating earnings | (42) | (44) |
| Tax on non-operating earnings | 20 | 9 |
| **Group MCEV earnings after tax** | **(18)** | **(44)** |

Note:

(1) Life MCEV operating earnings are derived on an after tax basis. For presentational purposes, Life MCEV operating earnings before tax have been calculated by grossing up the after tax Life MCEV operating earnings. Life MCEV operating earnings before tax of £181 million for the half year ended 30 June 2014 (half year ended 30 June 2013: £165 million) are therefore calculated as £142 million operating earnings (half year ended 30 June 2013: £127 million) grossed up for tax at 21.5 per cent. (half year ended 30 June 2013: 23.25 per cent.).

### *Life MCEV operating earnings after tax*

Other than vesting annuities and increments to existing policies, the Group's life division is closed to new business. The principal underlying components of the life MCEV operating earnings are therefore the expected existing business contribution together with non-economic experience variances and assumption changes.

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013** |
| | *(£ million)* *(unaudited)* | |
| **Life MCEV operating earnings after tax** | | |
| New business value | 7 | 10 |
| Expected existing business contribution | 72 | 62 |
| Non-economic experience variances and assumption changes: | | |
| Experience variances | 36 | 26 |
| Assumption changes | (17) | 20 |
| Other operating variances | 44 | 9 |
| Total non-economic experience variances and assumption changes | 63 | 55 |
| **Life MCEV operating earnings after tax** | **142** | **127** |

The new business value for the half year ended 30 June 2014 decreased by £3 million to £7 million, from £10 million for the half year ended 30 June 2012. New business value represents the value of vesting pension policies not reflected in the opening MCEV. These arise from pension policies which have no attaching annuity guarantees. The new business margin (ratio of the net of tax new business value to the amount received as new single premiums) was 8 per cent. after tax for the half year ended 30 June 2014 (for the half year ended 30 June 2013: 6 per cent.). This decrease compared to the prior period reflects lower premium volumes on vestings without guaranteed annuity rates.

The Group uses long-term investment return assumptions in calculating the expected existing business contribution. The expected existing business contribution for the half year ended 30 June 2014 increased by £10 million to £72 million, from £62 million for the half year ended 30 June 2013, primarily due to an increase in the long-term risk free rate used to calculate operating earnings.

The life division's non-economic variances and assumption changes increased MCEV by £63 million after tax for the half year ended 30 June 2014 and primarily related to one-off positive impacts of £72 million from modelling enhancements reflecting the implementation of the Group's new actuarial system and refinements to the modelling of credit default risk, together with the impact of balance sheet reviews conducted in the period. This has partly been offset by a negative impact of £17 million relating to the impact of the assumed reduction in takeup of guaranteed annuities following the pension reforms announced in the March budget. Net other items have increased MCEV by £8 million.

The life division's non-economic variances and assumption changes increased MCEV by £55 million after tax for the half years ended 30 June 2013 and primarily related to one-off management actions of £52 million, principally relating to the release of legacy provisions and asset/liability matching activity.

***Management services and Ignis Asset Management operating profit***

Commentary on the management services and Ignis Asset Management operating profit is provided in the section "*IFRS Operating Profit for the Group for the Half Years ended 30 June 2014 and 2013*".

***Group costs***

Group costs for the half year ended 30 June 2014 decreased by £3 million to £10 million, from £13 million for the half year ended 30 June 2013. Group costs include costs relating to Group functions and project spend of £10 million before tax (half year ended 30 June 2013: £9 million). The balance of the charge in 2013 relates to charges on the Pearl Group Staff Pension Scheme, which were minimal in the current period.

***Economic variances***

Negative economic variances on life business of £28 million before tax for the half year ended 30 June 2014 primarily relate to the negative impacts of the difference between actual short-term returns and the long-term investment return assumptions used to determine operating earnings and increases in the market value of the PLL Tier 2 Bonds, partly offset by positive property and equity returns in the period and the impact of falling yields.

Negative economic variances on life business of £30 million before tax for the half year ended 30 June 2013 primarily related to the difference between actual short-term returns and the long-term investment return assumptions used to determine operating earnings and the impact of increasing yields, partly offset by positive equity returns and gains from narrowing corporate bond spreads.

Negative economic variances on non-life business of £37 million before tax largely relate to an increase in the market value of the Tier 1 Bonds, which decreased MCEV earnings by £40 million, partly offset by the reduction in the fair value of the Phoenix Group Holdings warrants of £4 million.

Negative economic variances on non-life business of £43 million before tax for the half year ended 30 June 2013 largely related to an increase in the market value of the Tier 1 Bonds which decreased MCEV earnings by £58 million partly offset by fair value gains on interest rate swaps held by the holding companies.

***Other non-operating variances on life business***

Other non-operating variances on life business decreased Group MCEV by £104 million on a net of tax basis for the half year ended 30 June 2014. The decrease primarily relates to a loss of £40 million in relation to an anticipated reduction in future profits arising from external regulatory changes to the cap on workplace pension charges, a loss of £25 million relating to anticipated VAT costs on future management investment expenses following the Divestment, a £14 million loss arising from the reinsurance agreement to transfer annuity in-payment liabilities held within the with-profit funds to Guardian Assurance Limited and a £36 million reduction in the value of in-force business to reflect the impact of debt repayments, refinancing and other corporate activity on expected tax attributes available to the Group to relieve tax on emerging surpluses. This has partly been offset by a gain of £23 million arising from the restructure of PLL's exposure to longevity risk from the PGL Pension Scheme. Net other items decreased MCEV by £12 million.

Other non-operating variances on life business of negative £3 million before tax for the half year ended 30 June 2013 primarily related to a revision to the net benefit expected to arise upon completion of the annuity transfer transaction partly offset by regulatory change and systems transformation costs incurred by the life companies.

### *Non-recurring items on non-life business*

Non-recurring items on non-life business increased embedded value by £59 million before tax. Non-recurring items include £68 million income received by PGH1 from the with-profit funds in relation to the close-out of the PGL Pension Scheme longevity indemnity agreement. Partly offsetting this income are £16 million of Group project and transformation costs, with net other one-off items having a positive impact of £7 million.

Non-recurring items on non-life business reduced embedded value by £38 million before tax for the half year ended 30 June 2013. Non-recurring items included arrangement and structuring fees of £21 million associated with the re-terming of the Impala Facility, regulatory change and systems transformation costs of £4 million and restructuring costs and other one-off items of £13 million.

### *Finance costs attributable to owners*

Finance costs attributable to owners under MCEV include the coupon on the Tier 1 Bonds. Under MCEV the Tier 1 Bonds are treated as a liability and carried at market value. Under IFRS, the Tier 1 Bonds are treated as equity and not revalued.

The Group's finance costs attributable to owners for the half year ended 30 June 2014 decreased by £22 million to £62 million, from £84 million for the half year ended 30 June 2013, primarily due to the closure of the Group's interest rate swap arrangements in the second half of 2013 which were responsible for a net finance charge in the comparative period.

### Group MCEV as at 30 June 2014 and 2013

The Group MCEV decreased by £50 million over the half year ended 30 June 2014 to £2,328 million as shown below:

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013** |
| | *(£ million)* *(unaudited)* | |
| **Movement in Group MCEV** | | |
| **Group MCEV at 1 January** | **2,378** | **2,122** |
| Group MCEV (loss)/earnings after tax | (18) | (44) |
| Actuarial losses and pension scheme contributions on defined benefit pension schemes | 32 | (2) |
| Capital and dividend flows | (64) | 171 |
| **Group MCEV at 30 June** | **2,328** | **2,247** |

Capital and dividend flows for the half year ended 30 June 2014 primarily comprise external dividend payments of £60 million and movements in the own shares held balance.

Capital and dividend flows for the half year ended 30 June 2013 primarily comprise ordinary share capital issued of £233 million (net of associated fees and commissions) less external dividend payments of £60 million.

**Group MCEV operating earnings for the years ended 31 December 2013, 2012 and 2011**

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012** | **2011 Restated** |
| | | *(£ million)* *(audited)* | |
| **MCEV operating earnings** | | | |
| Life MCEV operating earnings[(1)] | 401 | 360 | 556 |
| Management services operating profit | 32 | 28 | 17 |
| Ignis Asset Management operating profit | 49 | 43 | 46 |
| Group costs | (27) | (25) | (54) |
| **Group MCEV operating earnings before tax** | **455** | **406** | **565** |
| Tax on operating earnings | (105) | (99) | (148) |
| **Group MCEV operating earnings after tax** | **350** | **307** | **417** |

Note:

(1) Life MCEV operating earnings are derived on an after tax basis. For presentational purposes Life MCEV operating earnings before tax have been calculated by grossing up the after tax Life MCEV operating earnings. Life MCEV operating earnings before tax of £401 million for the year ended 31 December 2013 (year ended 31 December 2012: £360 million; year ended 31 December 2011: £556 million) are therefore calculated as £308 million operating earnings (year ended 31 December 2012: £272 million; year ended 31 December 2011: £409 million) grossed up for tax at 23.25 per cent. (year ended 31 December 2012: 24.5 per cent.; year ended 31 December 2011: 26.5 per cent.).

### *Life MCEV operating earnings after tax*

Other than vesting annuities and increments to existing policies, the Group's life division is closed to new business. The principal underlying components of the life MCEV operating earnings are therefore the expected existing business contribution together with non-economic experience variances and assumption changes.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | | *(£ million)* *(audited)* | |
| **Life MCEV operating earnings after tax** | | | |
| Expected existing business contribution | 125 | 184 | 254 |
| New business value | 18 | 20 | 13 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (£ million) (audited) | |
| Non-economic experience variances and assumption changes: | | | |
| Experience variances | 79 | 13 | 181 |
| Assumption changes | 3 | (37) | (18) |
| Other operating variances | 83 | 92 | (21) |
| Total non-economic experience variances and assumption changes | 165 | 68 | 142 |
| **Life MCEV operating earnings after tax** | **308** | **272** | **409** |

*Expected existing business contribution*

The Group uses long-term investment return assumptions in calculating the expected existing business contribution. The expected existing business contribution after tax for the year ended 31 December 2013 decreased by £59 million to £125 million, from £184 million for the year ended 31 December 2012, primarily due to a decrease in the long-term risk-free rate, narrowing corporate bond spreads and the impact of equity hedging strategies. The long-term risk-free rate is based on the opening position at 1 January 2013.

The expected existing business contribution after tax for the year ended 31 December 2012 decreased by £70 million to £184 million, from £254 million for the year ended 31 December 2011, primarily due to a decrease in the long-term risk-free rate and a lower opening MCEV for life business. The long-term risk-free rate is based on the opening position at 1 January 2012.

*New business value*

The new business value after tax for the year ended 31 December 2013 decreased by £2 million to £18 million from £20 million for the year ended 31 December 2012. The new business margin was 6 per cent. after tax (2012: 5 per cent.) and represents the ratio of the net of tax new business value to the amounts received as new single premiums.

The new business value after tax for the year ended 31 December 2012 increased by £7 million to £20 million, from £13 million for the year ended 31 December 2011. The new business margin in both years was 5 per cent. after tax and represents the ratio of the net of tax new business value to the amounts received as new single premiums.

*Non-economic experience variances and assumption changes*

Non-economic experience variances and assumption changes increased MCEV by £165 million after tax in 2013, compared to £68 million in 2012. The main drivers of the increase are other operating variances of £83 million (2012: £92 million), reflecting the benefits of modelling improvements made in the period and experience variances of £79 million (2012: £13 million) principally reflecting favourable longevity experience during the year and benefits from data cleansing projects. The increase is further enhanced by positive assumption changes of £3 million (2012: negative £37 million). The 2012 result was adversely impacted by a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

Non-economic experience variances and assumption changes increased MCEV by £68 million after tax in 2012. The main driver of this was other operating variances of £92 million, reflecting the benefits of modelling improvements and policy harmonisations undertaken in the period. Experience variances of £13 million principally reflected better than expected longevity experience during the year. Partly offsetting this was negative assumption changes of £37 million, primarily driven by a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

Non-economic experience variances and assumption changes increased MCEV by £142 million after tax in 2011. The main driver of this was experience variances of £181 million which included the benefits of improved asset allocations (£96 million), data cleansing projects (£30 million) and the resolution of legacy tax issues (£20 million). Negative assumption changes of £18 million were primarily driven by a reduction in assumed surrender rates in funds with valuable policyholder guarantees.

***Management services and Ignis Asset Management operating profit***

Commentary on the management services companies and Ignis Asset Management operating profit is provided in Section 6 of this section.

***Group costs***

Group costs for the year ended 31 December 2013 increased by £2 million to £27 million, from £25 million for the year ended 31 December 2012 reflecting defined benefit pension scheme costs which increased compared to the prior year. This is driven by a higher net interest cost, reflecting the opening defined benefit liability position on the Pearl Group Staff Pension Scheme compared to the opening defined benefit asset position in the prior year.

Group costs for the year ended 31 December 2012 decreased by £29 million to £25 million, from £54 million for the year ended 31 December 2011 reflecting lower costs relating to group functions of £29 million (year ended 31 December 2011: £39 million) driven by a focus on cost management, partly offset by miscellaneous income. The 2011 Group costs comparative also included a £14 million net interest cost on the Pearl Group Staff Pension Scheme. As this scheme was in a surplus position as at 1 January 2012, no interest cost was recognised in operating earnings in 2012 in respect of this scheme.

During 2012, the Group amended its MCEV accounting policy for recognising contributions to pension schemes in an IFRS surplus position. Prior to 2012, these contributions were recognised in Group costs. These contributions are now recognised in other comprehensive income along with actuarial gains and losses on schemes that are in an IFRS deficit, such that these non-operating items are treated consistently.

The 2011 comparatives have been restated in this regard, increasing 2011 Group MCEV operating earnings after tax by £23 million, and reducing other comprehensive income by the same amount. There is no net impact on the MCEV.

**Reconciliation of Group MCEV operating earnings to Group MCEV earnings for the years ended 31 December 2013, 2012 and 2011**

Group MCEV operating earnings are reconciled to Group MCEV earnings as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 Restated |
| | | (£ million) (audited) | |
| **Group MCEV operating earnings after tax** | **350** | **307** | **417** |
| Economic variances on life business | 138 | 24 | (426) |
| Economic variances on non-life business | (48) | (6) | 38 |
| Other non-operating variances on life business | (35) | 39 | (12) |
| Non-recurring items on non-life business | (61) | (39) | (9) |
| Finance costs attributable to owners | (140) | (123) | (123) |
| Tax on non-operating earnings | (42) | — | 169 |
| **Group MCEV earnings after tax** | **162** | **202** | **54** |

***Economic variances on life business***

Positive economic variances on life business of £138 million in 2013 (2012: positive £24 million) reflect the positive impacts of narrowing corporate bond spreads, improved equity and property returns and a reduced cost of capital due to improved Life Company solvency. These have been partly offset by the negative impact of the difference between actual short-term rates and the long-term investment return assumption on which operating earnings is based and the increased market value of the PLL subordinated debt held as a liability in the MCEV.

Positive economic variances on life business of £24 million in 2012 reflect the positive impacts of narrowing credit spreads on corporate bonds, falling yields and rising equity markets. This was partly offset by negative property returns and the difference between actual short-term rates and the long-term investment return assumption on which operating earnings is based.

Negative economic variances on life business of £426 million in 2011 reflect the difference between actual short-term rates and the long-term investment return assumption, widening of credit spreads and the fall in equity and property markets, partly offset by the positive impact of a falling yield curve.

***Economic variances on non-life business***

Economic variances on non-life business of negative £48 million in 2013 reflect the increase in the market value of the Tier 1 Bonds which decreased MCEV earnings by £84 million before tax (under MCEV the Tier 1 Bonds are treated as a liability and carried at market value). This was partly offset by fair value gains on interest rate swaps and excess returns on financial assets held by the Holding Companies.

Economic variances on non-life business of negative £6 million in 2012 reflect the increased market value of the Tier 1 Bonds which decreased MCEV earnings by £28 million before tax. This was partly offset by fair value gains on interest rate swaps and excess returns on financial assets held by the Holding Companies.

Economic variances on non-life business of positive £38 million in 2011 reflect the decrease in the market value of the Tier 1 Bonds which increased MCEV earnings by £48 million before tax. This gain was partly offset by losses on interest rate swaps held in the Holding Companies.

### *Other non-operating variances on life business*

Other non-operating variances on life business of negative £35 million before tax in 2013 primarily related to regulatory change and systems transformation costs incurred by the Life Companies, together with the impact of certain tax items including the impact of corporate tax rate reductions.

Other non-operating variances on life business of positive £39 million before tax in 2012 primarily related to the net benefit of the annuity transfer transaction of £38 million, together with benefits from the fund merger and restructuring activities undertaken in the period. This was partly offset by regulatory change, systems transformation and restructuring costs incurred by the Life Companies.

Other non-operating variances on life business of negative £12 million before tax in 2011 primarily related to regulatory change and systems transformation costs.

### *Non-recurring items on non-life business*

Non-recurring items on non-life business reduced embedded value by £61 million before tax in 2013. Non-recurring items included arrangement and structuring fees of £21 million associated with the re-terming of the Impala Facility, a loss from a pension liability management exercise of £9 million and £31 million (2012: £39 million) of regulatory change, systems transformations and restructuring costs incurred by the management services companies, together with corporate project and other one-off costs.

Non-recurring items on non-life business reduced embedded value by £39 million before tax in 2012. Non-recurring items included restructuring costs of £16 million and regulatory change and systems transformation costs of £13 million.

Non-recurring items on non-life business reduced embedded value by £9 million before tax in 2011. Non-recurring items included restructuring costs of £51 million and regulatory change and systems transformation costs of £12 million. These costs are offset by a gain of £19 million arising from closing the Pearl Group Staff Pension Scheme to future accrual and implementing a pension increase exchange programme and a £35 million recovery of historic costs under the management services agreements with the life division.

### *Finance costs attributable to owners*

Finance costs attributable to owners under MCEV include the coupon on the Tier 1 Bonds. Under MCEV the Tier 1 Bonds are treated as a liability and carried at market value. Under IFRS the Tier 1 Bonds are treated as equity and are not revalued.

The Group's finance costs attributable to owners for the year ended 31 December 2013 increased by £17 million to £140 million, from £123 million for the year ended 31 December 2012. The increase reflects higher interest costs following the re-terming of the Impala Facility and increased costs associated with the Group's interest rate swap arrangements.

The Group's finance costs attributable to owners for the years ended 31 December 2012 and 2011 were £123 million for each such year.

## Group MCEV as at 31 December 2013, 2012 and 2011

The movement from opening to closing Group MCEV is shown below:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 Restated |
| | | (£ million) (audited) | |
| **Movement in Group MCEV** | | | |
| Group MCEV at 1 January | 2,122 | 2,118 | 2,104 |
| Group MCEV earnings after tax | 162 | 202 | 54 |
| Other comprehensive income: | | | |
| Actuarial (losses)/gains on defined benefit pension scheme (net of tax) | (16) | (131) | 9 |
| Capital and dividend flows | 110 | (67) | (49) |
| **Group MCEV at 31 December** | **2,378** | **2,122** | **2,118** |

Capital and dividend flows in 2013 mainly comprise issued share capital of £233 million, offset by external dividend cash payments of £120 million. Capital and dividend flows in 2012 and 2011 mainly comprised external dividend cash payments of £73 million and £55 million respectively.

## Recent Developments, Current Trading and Outlook

An update on the Group's recent developments, current trading and outlook is included in the 2014 Q3 Interim Management Statement, which is incorporated by reference into this Prospectus.

### *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 on Completion of the Divestment. On 24 June 2014, the Group announced that the FCA has granted the Change in Control Approval for the Divestment of Ignis Asset Management and that no further regulatory approvals are required for the Divestment. The Group announced that Completion of the Divestment occurred on 1 July 2014 and cash proceeds of £390 million were received. A payment of £5.5 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. For details on the financial effects of the Divestment on the Group, see "*General Information—Material Contracts of the Guarantor—Contracts relating to the Divestment of Ignis Asset Management*" and "*Financial Information Relating to the Divestment*".

### *Cash Generation*

For the year ended 31 December 2014, the Group has a cash generation target of £500 million to £550 million, excluding Ignis Asset Management divestment proceeds. The Group currently has a long-term cash generation target of £2.8 billion between 2014 and 2019, including the Ignis divestment proceeds. As at 30 September 2014, £438 million of cash generation had been achieved since 1 January 2014, excluding Ignis Asset management divestment proceeds. Full year cash generation is expected to be towards the top end of the target range.

***Group IGD Surplus***

As at 30 September 2014, the Group's IGD surplus was estimated to be £1.1 billion, which is a £0.2 billion reduction from £1.3 billion at 30 June 2014. The headroom over the Group's IGD capital policy at 30 September 2014 was estimated to be £0.4 billion, a reduction of £0.2 billion from £0.6 billion at 30 June 2014. These reductions were driven by the £206 million debt prepayment from internal resources associated with the refinancing of the Group's bank and senior debt. The impact of the Divestment and subsequent debt repayment was broadly neutral.

***PLHL ICA Surplus***

PLHL ICA is an additional group solvency calculation. As at 30 September 2014, the Group's PLHL ICA surplus was £0.7 billion, compared with £1.0 billion as at 30 June 2013. The reduction in PLHL ICA surplus of £0.3 billion results from a combination of the impact arising from the Divestment and the £206 million prepayment of debt following the £900 million debt facility refinancing. In accordance with the PRA's requirements, the Group aims to ensure that PLHL maintains a PLHL ICA surplus of at least £150 million, which represents the surplus of the Group's capital resources over its capital resource requirements on a Pillar 2 basis.

***Group MCEV***

The Group has set a target of delivering £300 million of incremental MCEV between 2014 and 2016, excluding the impact of the Divestment. The Group generated £153 million of incremental MCEV in the half year ending 30 June 2014 towards this target through a series of actions including enhancements from our new actuarial modelling system and restructuring of the PGL Pension Scheme longevity arrangements.

***Gearing***

The Group calculates its gearing as gross shareholder debt as a percentage of gross MCEV. Gross shareholder debt is defined as the sum of IFRS carrying value of shareholder debt (as disclosed in the Borrowings note to the Guarantor's consolidated financial statements) and 50 per cent. of the IFRS carrying value of the Perpetual Reset Capital Securities issued by PGH1 given the hybrid nature of that instrument. Gross MCEV is defined as the sum of the Group MCEV and the value of the shareholder and hybrid debt as included in the MCEV.

Assuming the proceeds from the Divestment, the subsequent £250 million debt prepayment, the Senior Bond transaction and the £900 million unsecured bank refinancing and associated £206 million debt prepayment had taken place on 30 June 2014, gearing on a proforma basis would reduce to 35 per cent., thus meeting the Group's original 40 per cent. target 18 months ahead of schedule.

***Free Surplus***

The Group calculates the estimated Phoenix Life surplus, which represents excess capital over the minimum requirements and the Life Companies' capital policies, at £297 million at 30 September 2014 (30 June 2014: £379 million) following the distribution of cash to holding companies.

***Current trading update***

The Group estimates that it is on track to meet all financial targets, comprising:

(i) operating companies' cash generation of £500-£550 million in 2014 (excluding the Divestment proceeds), and £2.8 billion between 2014 and 2019 (including the Divestment proceeds);

(ii) cumulative incremental MCEV enhancements of £300 million in the period from 2014 – 2016; and

(iii) a gearing ratio which will allow the Group to achieve and maintain an Investment Grade Rating.

## Liquidity and Capital Resources

### Introduction

***The Guarantor and the UK Holding Companies***

The principal cash requirements of the Guarantor and Phoenix Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Group Holdings (No. 1) Limited, PGH (TC1) Limited, PGH (TC2) Limited, PGH (MC1) Limited, PGH (MC2) Limited, PGH (LCA) Limited, PGH (LCB) Limited, PGH (LC1) Limited, PGH (LC2) Limited and Pearl Life Holdings Limited (together, the "**Holding Companies**") are the payment of dividends to Shareholders, the servicing of debt, contributions to the pension schemes and the payment of expenses. The principal sources of cash for the Holding Companies are loans and dividends from operating subsidiaries.

***The Life Companies***

The Life Companies' principal sources of liquidity are policyholder premiums, cash balances, net investment income received and proceeds from investments as they are repaid, redeemed or sold. The Life Companies principally use their liquidity to pay policyholder benefits (including withdrawals and surrender payments) and operating expenses and to purchase investments.

The Life Companies are subject to various regulatory restrictions on the maximum amount of payments, including dividends, loans or cash advances, that they may make to their shareholders. The amount of cash that the Life Companies may distribute to the Holding Companies depends on the individual solvency position of each of the Life Companies. Cash may be distributed only to the extent that (i) the individual solvency positions of the Life Company is positive and (ii) there is excess capital over and above an additional solvency buffer determined by the respective Life Company board, subject to any regulatory limitations imposed. The amount of cash that the UK Holding Companies may distribute to the Guarantor depends amongst other things on the overall solvency position of the Group, which is calculated at the level of the highest EEA insurance group holding company (the IGD and ICA solvency tests), which is PLHL.

### Cash flows

The statement of cash flows prepared in accordance with IFRS combines cash flows relating to policyholders and cash flows relating to shareholders, but the practical management of cash within the Group maintains a distinction between the two, as well as taking into account regulatory and other restrictions on availability and transferability of capital. For this reason, the discussion and analysis of the Group's cash flows for each of the financial years ended 31 December 2013, 2012 and 2011 focuses on the cash flows of the Holding Companies, which reflect cash flows relating only to shareholders and are therefore more representative of the cash that could potentially be distributed to the Group's shareholders. This cash flow information comprises the amounts that were remitted from the Group's operating subsidiaries to the Holding Companies, together with the Holding Companies' outflows.

The tables below set out, for the periods indicated, an analysis of the cash paid by the operating companies to the Holding Companies, as well as the uses of those cash receipts.

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013** |
| | *(£ million)* *(unaudited)* | |
| **Cash and cash equivalents at 1 January** ................................................ | **995** | **1,066** |

| | Half year ended 30 June | |
|---|---|---|
| | **2014** | **2013** |
| | *(£ million)* *(unaudited)* | |
| **Operating companies' cash generation** | | |
| Cash receipts from Phoenix Life | 211 | 411 |
| Cash receipts from Ignis Asset Management | 32 | 5 |
| Other cash receipts | 89 | - |
| **Total receipts of cash by Holding Companies** | **332** | **416** |
| Net proceeds of the equity raise | — | 211 |
| **Uses of cash:** | | |
| Operating expenses | (13) | (21) |
| Pension scheme contributions | (13) | (16) |
| Debt interest | (59) | (88) |
| **Total recurring cash outflows** | **(85)** | **(125)** |
| Non-recurring cash outflows | (16) | (7) |
| **Uses of cash before debt repayments and shareholder dividend** | **(101)** | **(132)** |
| Debt repayment | (85) | (535) |
| Shareholder dividends | (60) | (60) |
| **Total uses of cash** | **(246)** | **(727)** |
| **Cash and cash equivalents at 31 December** | **1,081** | **966** |

***Total receipts of cash by Holding Companies and net proceeds of the equity raise***

Total receipts of cash by Holding Companies from the operating companies for the half year ended 30 June 2014 were £332 million, driven largely by the opening free surplus within the life companies. Other cash receipts comprised £68 million from the buy-out of the Pension Indemnity from the with-profit funds and £21 million from the sale of BA(GI) Limited.

Total receipts of cash by Holding Companies from the operating companies for the half year ended 30 June 2013 were £416 million. Of these cash flows £252 million arose from free surplus generated by the life companies in 2012 following the Guardian Assurance annuity transfer transaction.

In January 2013 the Group announced the re-terming of the Impala Facility and an equity raising of £250 million. The equity raising comprised equity placings with certain Och-Ziff Funds and an open offer to raise aggregate gross proceeds of £250 million through the issuance on 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of associated fees and commission of £18 million, and after the deduction of £21 million of fees associated with the re-terming of the Impala Facility were £211 million.

***Uses of cash***

*Total recurring outflows*

Total recurring outflows for the half year ended 30 June 2014 decreased by £40 million to £85 million, from £125 million for the half year ended 30 June 2013. Operating expenses were lower than 2013 half year results as a result of lower corporate office costs, primarily staff costs. Pension scheme contributions decreased in line with the latest triennial funding valuation. This decrease was partly offset by a one-off £5 million payment to the PGL Pension Scheme.

Debt interest for the half year ended 30 June 2014 decreased by £29 million to £59 million, from £88 million for the half year ended 30 June 2013, mainly reflecting lower costs associated with the Group's interest rate swap arrangements which were closed out during 2013 and lower debt principal balances following the debt repayments over the period.

*Non-recurring outflows*

Non-recurring outflows of £16 million and £7 million for the half years ended 30 June 2014 and 2013 respectively reflect Group restructuring and corporate related projects. Also included are payments to the Employee Benefit Trust of £7 million.

*Debt repayments*

Debt repayments of £85 million for the half year ended 30 June 2014 comprise a £30 million targeted prepayment and a scheduled repayment of £30 million in respect of the Group's Impala Facility, together with a scheduled repayment of £25 million in respect of the Pearl Facility.

Debt repayments of £535 million for the half year ended 30 June 2013 comprise a £450 million voluntary debt prepayment, a targeted repayment of £30 million and a scheduled repayment of £30 million in respect of the Group's Impala Facility, together with a scheduled repayment of £25 million in respect of the Pearl Facility.

The table below sets out the Holding Companies' cash flows for the years ended 31 December 2013, 2012 and 2011:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | | *(£ million)* *(unaudited)* | |
| **Cash and cash equivalents at 1 January** | **1,066** | **837** | **486** |
| **Operating companies' cash generation** | | | |
| Cash receipts from Phoenix Life | 794 | 661 | 778 |
| Cash receipts from Ignis Asset Management | 23 | 29 | 32 |
| **Total receipts of cash by Holding Companies** | **817** | **690** | **810** |
| Net proceeds of capital raising | 211 | | |
| **Uses of cash:** | | | |
| Operating expenses | 34 | 37 | 52 |
| Pension scheme contributions | 96 | 50 | 35 |
| Debt interest | 147 | 115 | 122 |
| **Total recurring cash outflows** | **277** | **202** | **209** |
| Non-recurring cash outflows | 6 | 21 | 24 |
| **Uses of cash before debt repayments and shareholder dividend** | **283** | **223** | **233** |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (£ million) (unaudited) | | |
| Debt repayment | 696 | 165 | 171 |
| Shareholder dividends | 120 | 73 | 55 |
| **Total uses of cash** | **1,099** | **461** | **459** |
| **Cash and cash equivalents at 31 December** | **995** | **1,066** | **837** |

*Total receipts of cash by Holding Companies*

Total receipts of cash by Holding Companies for the year ended 31 December 2013 were £817 million including £332 million from management actions. Management actions increased cash flows primarily through the annuity transfer transaction with Guardian Assurance Limited together with benefits delivered from modelling improvement exercises and other investment and operational de-risking initiatives.

Total receipts of cash by Holding Companies for the year ended 31 December 2012 were £690 million including £209 million of management actions. The Group succeeded in achieving cash generation towards the top end of its target range of £600 million to £700 million for the year ended 31 December 2012.

Total receipts of cash by Holding Companies for the year ended 31 December 2011 were £810 million including £359 million of management actions. This enabled the Group to achieve its target for cash generation in 2011 of £750 million to £850 million despite challenging market conditions.

In January 2013 the Group announced the re-terming of the Impala Facility and an equity raising of £250 million. The equity raising comprised equity placings with certain Och-Ziff Funds and an open offer to raise aggregate gross proceeds of £250 million through the issuance on 21 February 2013 of 50 million ordinary shares. The proceeds of the equity raising net of associated fees and commission of £18 million, and after the deduction of £21 million of fees associated with the re-terming of the Impala loan facility were £211 million.

***Uses of cash***

*Total recurring cash outflows*

Total recurring cash outflows for the year ended 31 December 2013 increased by £75 million to £277 million, from £202 million for the year ended 31 December 2012. The increase was primarily due to an increase in pension scheme contributions and debt interest. Pension scheme contributions increased primarily due to the revised contribution profile as agreed with the Pearl Pension Scheme trustees which increased contributions by £46 million in 2013. Debt interest increased by £32 million which reflects the re-terming of the Impala Facility and increased costs associated with the Group's interest rate swap arrangements.

Total recurring cash outflows for the year ended 31 December 2012 decreased by £7 million to £202 million, from £209 million for the year ended 31 December 2011. The decrease was primarily due to lower debt interest payments and operating expenses, reflecting the impact of cost management initiatives. This was partly offset by higher pension scheme contributions by the UK Holding Companies as contributions to the PGL Pension Scheme are no longer partly funded by Phoenix Life. Phoenix Life funded contributions of £6 million in 2012 and £22 million in 2011.

*Non-recurring cash outflows*

Non-recurring cash outflows of £6 million, £21 million and £24 million for the years ended 31 December 2013, 2012 and 2011 respectively reflect investments in the Group's transformation programmes.

***Target cash flows***

The cumulative cash flow target for 2011 to 2016 was £3.5 billion, against which £2.3 billion had been delivered by 31 December 2013. The Group is targeting a new operating companies' cash generation from 1 January 2014 to 31 December 2019 of £2.8 billion. The resilience of the cash generation target is demonstrated by the following stress testing as at 31 December 2013:

| | **1 January 2014 to 31 December 2019** |
|---|---|
| | *(£ billion)* |
| **Stress testing** | |
| Base case 6-year target | 2.8 |
| 20% fall in equity markets | 2.7 |
| 15% fall in property values | 2.7 |
| 75bps increase in nominal yields(1) | 2.8 |
| 75bps decrease in nominal yields(1) | 2.8 |
| Credit spreads widening with no change in expected defaults(2) | 2.6 |

Notes:

(1) Represents a real yield reduction of 25bps, given a 75bps parallel increase/decrease in nominal yields.

(2) 11-15 year term: AAA– 44bps, AA– 93bps, A– 111bps, BBB– 187bps.

One-off shocks would be expected to lead to a deferral of cash emergence rather than a permanent diminution.

## Regulatory capital requirements

***Life Companies***

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the PRA. In addition to EU-directive-based "**Pillar 1**" and group capital requirements, the PRA has also stipulated a "**Pillar 2**" of risk-based capital requirements that have been implemented in the UK. A life company's actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the company. Each of the Life Companies generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and cause the company to fail the minimum level of regulatory capital test. PRA regulated insurance groups (including their insurance holding companies) are also required to provide capital adequacy calculations on a group-wide basis, (i.e. their IGD solvency surplus), to enable the PRA to assess both the level of insurance and financial risk within the relevant insurance group and the resources available to cover this risk.

For more information regarding the UK regulatory capital framework, see "*Regulatory Overview*".

*Pillar 1*

The public Pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk or setting aside a proportion of expenses. There are further stress tests for with-profit business which may increase the required capital under these calculations.

The following table sets forth, for each of the Group's main Life Companies as at 31 December 2013, (i) its capital resources, (ii) its Pillar 1 regulatory capital requirements and (ii) the amount by which its capital resources exceed its Pillar 1 regulatory capital requirements, as at 31 December 2013.

| | As at 31 December 2013 | | |
|---|---|---|---|
| | **Capital resources** | **Capital requirements** | **Surplus** |
| | | *(£ billion)* | |
| | | *(unaudited)* | |
| Phoenix Life Limited[(1)] | 4.2 | 3.5 | 0.7 |
| Phoenix Life Assurance Limited (formerly Pearl Assurance Limited)[(2)] | 2.1 | 1.5 | 0.6 |

Notes:

(1) Includes the surplus of Phoenix Life Limited's subsidiaries, NPI and Scottish Mutual International.

(2) Includes the surplus of Phoenix Life Assurance Limited's subsidiary, National Provident Life. Pearl Assurance Limited was renamed Phoenix Life Assurance Limited on 28 September 2012.

*Pillar 2*

The private Pillar 2 capital calculation is based on a self-assessment methodology called the Individual Capital Assessment (ICA). This methodology determines the capital requirement to ensure that the Life Company's realistic liabilities can be met in one year's time with a 99.5 per cent. confidence level, or in other words to be able to withstand a one in 200 year event. The PRA reviews each Life Company's ICA and may impose additional capital requirements if necessary in the form of Individual Capital Guidance.

*Free Surplus*

As described above, each of the Group's UK Life Companies must retain sufficient capital to meet the most onerous of its Pillar 1 and Pillar 2 capital requirements. The Group has also agreed capital policies for each Life Company with the PRA and capital must also be retained to cover these. Phoenix Life's free surplus position represents the total excess capital over the most onerous of each Life Companies' Pillar 1 or Pillar 2 capital policy. Subject to board approval, Phoenix Life's free surplus amount is effectively the excess capital over the PRA's minimum requirements and the Life Companies' capital policies which may be distributed to the Holding Companies.

As at 30 September 2014, Phoenix Life's free surplus was £297 million, compared to £379 million as at 30 June 2014 and £529 million at 31 December 3013. Phoenix Life's free surplus has decreased by £82 million in the period from 30 June 2014 to 30 September 2014 primarily as a result of cash distributed to the Holding Companies.

### *Group Requirements*

*IGD Solvency*

For the Group, the IGD calculation is performed at the PLHL level. This intermediate holding company is the ultimate insurance parent undertaking within the EEA, and therefore the Group is required to hold sufficient capital of appropriate quality to ensure that the IGD calculation at the PLHL level is positive.

The Group's capital policy, which is agreed with the PRA, is to maintain group capital resources calculated at the PLHL level at an amount in excess of:

- 105 per cent. of the WPICC, being an additional capital requirement of with-profit funds; plus
- 145 per cent. of the Group Capital Resources Requirement less the WPICC.

The group capital resource requirement is the sum of the individual capital resource requirements for each of the regulated undertakings in the insurance group.

The following tables set forth the components of the IGD calculation at PLHL as at the dates indicated.

| | **As at 30 June 2014** | **As at 31 December 2013** | **As at 31 December 2012** | **As at 31 December 2011** |
|---|---|---|---|---|
| | | *(£ billion)* *(unaudited)* | | |
| Group capital resources .............................. | 5.3 | 5.4 | 5.6 | 5.6 |
| Group capital resource requirement............ | (4.0) | (4.2) | (4.2) | (4.3) |
| **IGD surplus**............................................... | **1.3** | **1.2** | **1.4** | **1.3** |
| **Headroom over capital policy** .................. | **0.6** | **0.5** | **0.6** | **0.4** |

The Group's IGD surplus for the half year ended 30 June 2014 increased by £0.1 billion, to £1.3 billion from £1.2 billion for the year ended 31 December 2013. The key drivers of the increase in the IGD surplus include capital generation items of £0.2 billion including capital benefits in relation to the close-out of the PGL Pension Scheme longevity indemnity agreement, offset by debt financing and prepayments of £0.1 billion.

The Group's IGD surplus for the year ended 31 December 2013 decreased by £0.2 billion, to £1.2 billion, from £1.4 billion for the year ended 31 December 2012. The key drivers of the reduction in the IGD surplus were dividend payments and debt financing and repayments of £0.6 billion, including a £0.2 billion reduction in relation to the re-terming of the Impala Facility net of proceeds from the equity raise, partly offset by capital generation items of £0.4 billion, which included the benefits of the completion of the legal transfer of the annuity liabilities to Guardian Assurance.

The Group's IGD surplus for the year ended 31 December 2012 increased by £0.1 billion, to £1.4 billion, from £1.3 billion for the year ended 31 December 2011. The key drivers of this change were capital generation items of £0.6 billion, which included the benefits of the transfer of the NPI business into PLL (effective from 1 January 2012) and the transfer of the London Life Limited business into Phoenix Life Assurance Limited offset by the movement to an IAS 19 deficit on the Pearl Group Staff Pension Scheme of £0.2 billion from a surplus position in 2011 and dividend payments, debt financing and repayments of £0.3 billion.

*Individual Capital Assessment*

The Group undertakes an Individual Capital Assessment (or ICA) at the level of the highest EEA level insurance group holding company, which is PLHL. The PLHL ICA involves an assessment, on a Pillar 2 basis, of the capital resources and requirements arising from the obligations and risks which exist outside the Life Companies. Pillar 2 is based on a self-assessment methodology and calculates capital resources and requirements on an economic basis. As agreed with the PRA, the Group aims to ensure that PLHL maintains capital resources in excess of its pension scheme and other capital requirements as assessed under Pillar 2, which is known as the Group's PLHL ICA surplus. The Group is obliged to restrict discretionary payments out of PLHL to the extent required to maintain an ICA surplus of at least £150 million.

The ICA methodology determines the capital requirement to ensure that the life company's realistic liabilities can be met in one year's time with a 99.5 per cent. confidence level, or in other words to be able to withstand a one in 200 year event. The PRA reviews each company's ICA and may impose additional capital requirements if necessary in the form of Individual Capital Guidance.

As at 30 June 2014, the Group's PLHL ICA surplus was £1.0 billion, and is calculated as set out in the table below:

| | **As at 30 June 2014** | **As at 31 December 2013** | **As at 31 December 2012** |
|---|---|---|---|
| | | *(£ billion)* *(unaudited)* | |
| Capital resources[1] | 1.4 | 1.5 | 1.3 |
| Capital resource requirements[2] | (0.4) | (0.3) | (0.3) |
| **PLHL ICA surplus** | **1.0** | **1.2** | **1.0** |

Notes:

(1) Capital resources includes the surplus over capital policy in the life companies, a prudent assessment of the present value of future profits of Ignis Asset Management and the net assets of the holding companies less pension scheme obligations calculated on an economic basis.

(2) Capital requirements relate to the risks arising outside of the Life Companies including those in relation to the Group's staff pension schemes, offset by Group diversification benefits.

The PLHL ICA surplus as at 30 June 2014 was £1.0 billion (31 December 2013: £1.2 billion). The reduction in surplus primarily reflects the strengthening of the assumptions related to longevity, credit and correlations.

*Regulatory solvency sensitivity analysis*

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:

| | Estimated IGD surplus 30 June 2014 | Estimated PLHL ICA surplus 30 June 2014 |
|---|---|---|
| | *(£ billion)* | |
| **Sensitivity analysis** | | |
| Estimated 30 June 2014 position | 1.3 | 1.0 |
| Estimated position following a 20 per cent. fall in equity markets | 1.3 | 0.9 |
| Estimated position following a 15 per cent. fall in property values | 1.3 | 0.9 |
| Estimated position following a 75 bps parallel increase in yields(1) | 1.3 | 1.1 |
| Estimated position following a 75 bps parallel decrease in yields(2) | 1.4 | 0.9 |
| Estimated position following credit spread widening(3) | 1.4 | 0.8 |

Notes:

(1) 75 bps parallel increase in nominal yields and a 75 bps increase in inflation.

(2) 75 bps parallel decrease in nominal yields and a 75 bps decrease in inflation.

(3) 11-15 year term: AAA 44 bps, AA 93 bps, A 111 bps, BBB 187 bps.

The relative insensitivity of the Group's IGD surplus reflects the nature of Pillar 1 rules for with-profit funds which stipulate that the surplus estate is treated as policyholder liabilities. The sensitivities reflect the impact of market movements not only on the Life Companies but also on its staff pension schemes.

## Gearing

The Group calculates its gearing as gross shareholder debt as a percentage of the gross MCEV. Gross shareholder debt is defined as the sum of IFRS carrying value of shareholder debt (as disclosed in the Borrowings note to the Group's consolidated IFRS financial statements) and 50 per cent. of the IFRS carrying value of the Perpetual Reset Capital Securities issued by PGH1 given the hybrid nature of that instrument. Gross MCEV is defined as the sum of the Group MCEV and the value of the shareholder and hybrid debt as included in the MCEV.

The table below sets out, for the periods indicated, the calculation of the components of the Group's gearing.

| | As at 30 June 2014 | As at 31 December 2013 | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|---|---|
| | | *(£ million)* | | |
| | *(unaudited)* | *(audited, except as otherwise indicated)* | | |
| Group MCEV | 2,328 | 2,378 | 2,122 | 2,118 |
| Gross shareholder and hybrid debt at IFRS carrying values: | | | | |
| —Shareholder debt | 1,782 | 1,857 | 2,537 | 2,694 |

| | As at 30 June 2014 | As at 31 December 2013 | As at 31 December 2012 | As at 31 December 2011 |
|---|---|---|---|---|
| | | *(£ million)* | | |
| | *(unaudited)* | *(audited, except as otherwise indicated)* | | |
| —50 per cent. of Perpetual Reset Capital Securities(hybrid debt) (unaudited) ............ | 199 | 204 | 204 | 204 |
| Gross shareholder and hybrid debt (unaudited)................................................. | 1,981 | 2,061 | 2,741 | 2,898 |
| Difference between IFRS and MCEV carrying values of listed debt(1) (unaudited)................................................. | 249 | 200 | 112 | 71 |
| Gross MCEV (unaudited) ........................... | **4,558** | **4,639** | **4,975** | **5,087** |
| Gearing ratio (per cent.).............................. | **43** | **44** | **55** | **57** |

Note:

The Perpetual Reset Capital Securities and £200 million 7.25 per cent. unsecured subordinated loan note are included in MCEV at market value as disclosed in the Assumptions note of the Group's MCEV financial statements.

Gearing reduced to 43 per cent. at 30 June 2014 from 44 per cent. at 31 December 2013 reflecting a £30 million targeted repayment and a £30 million scheduled repayment made during the period in respect of the Impala Facility and a scheduled repayment of £25 million in respect of the Pearl Facility.

Assuming that the proceeds from the Divestment and subsequent £250 million debt prepayment, the £300 million 5.75 per cent. 7 year unsecured bond issue and the £900 million unsecured bank refinancing and associated £206 million debt prepayment had taken place on 30 June 2014, gearing on a proforma basis would reduce to 35 per cent., thus meeting the Group's original 40 per cent. target 18 months ahead of schedule.

Gearing reduced to 44 per cent. at 31 December 2013 from 55 per cent. at 31 December 2012 reflecting the equity raise of £232 million (net of associated fees and commission) and debt repayments of £696 million made in the period. The ratio is targeted to reduce to 40 per cent. by the end of 2016.

Gearing reduced to 55 per cent. at 31 December 2012 from 57 per cent. at 31 December 2011 following a reduction in shareholder debt.

## Off-Balance Sheet Arrangements

The Group is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Contingent Liabilities

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration. As at 30 September 2014, the Group had no material contingent liabilities.

## Capitalisation

### Capitalisation

The table below sets out the Group's consolidated capitalisation as at 30 June 2014. This table should be read in conjunction with the Group's consolidated financial information as at and for the nine months ended 30 September 2014, the six months ended 30 June 2014 and the years ended 31 December 2013, 2012 and 2011, each of which is incorporated by reference into this Prospectus.

| | **As at 30 June 2014** |
|---|---|
| | *(£ million)* *(unaudited)* |
| Share capital[(1)] | — |
| Share premium[(1)] | 1,038 |
| Other reserves | — |
| Shares held by employee trust and Group entities[(2)] | (14) |
| Foreign currency translation reserve | 85 |
| Retained earnings | 951 |
| **Total equity attributable to owners of the parent** | 2,060 |
| Non-controlling interests: | |
| Perpetual Reset Capital Securities[(3)] | 397 |
| UK Commercial Property Trust Limited[(4)] | 428 |
| **Total equity** | 2,885 |

Notes:

(1) Ordinary Shares with a par value of €0.0001 each. As at 30 June 2014, there were 410 million Ordinary Shares authorised and 224.9 million Ordinary Shares issued, outstanding and fully paid.

(2) Represents the value of the shares held by the Phoenix Group Holdings Employee Benefit Trust to satisfy awards granted to employees under the Group's share-based payment schemes and shares issued to Pearl Assurance Limited (which was renamed Phoenix Life Assurance Limited on 28 September 2012) following the restructuring of the contingent rights over ordinary shares of the Guarantor which occurred during 2010. The number of shares held by the Phoenix Group Holdings Employee Benefit Trust as at 30 June 2014 was 1,659,986.

(3) PGH1 has in issue £425 million of Perpetual Capital Reset Securities which are admitted to the Official list of the FCA and to trading on the Regulated Market. The Perpetual Capital Reset Securities have no fixed maturity and interest payments may be deferred at the option of PGH1. Accordingly the Perpetual Capital Reset Securities meet the definition of equity for IFRS reporting purposes.

(4) UK Commercial Property Trust Limited ("UKCPT") is a property investment subsidiary which is domiciled in Guernsey and is admitted to the Official List of the FCA and to trading on the Regulated Market.

## SECTION A: FINANCIAL INFORMATION ON IGNIS ASSET MANAGEMENT LIMITED

*The following financial information relating to Ignis Asset Management Limited has been extracted without material adjustment from the consolidation schedules that support the consolidated financial statements of the Guarantor for each of the years presented below.*

*The consolidated financial information in this section has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.*

*Prospective investors in the Notes should read the whole of this Prospectus and should not rely solely on the financial information contained in this section.*

### Consolidated Income Statement

| | For the half year ended | For the year ended 31 December | | |
|---|---|---|---|---|
| | **30 June 2014** | **2013** | **2012** | **2011** |
| | | *(£ million)* | | |
| | *(unaudited)* | *(audited)* | | |
| **Fees from:** | | | | |
| External customers | 26 | 48 | 34 | 31 |
| Other intra-group segments | 38 | 102 | 103 | 113 |
| Net investment income | (6) | 7 | 1 | 1 |
| Other operating income from intra-group segments | — | — | 5 | 1 |
| **Total income** | **58** | **157** | **143** | **146** |
| Depreciation, impairment and amortisation: | | | | |
| Depreciation of property, plant and equipment | — | (3) | (3) | (3) |
| Amortisation of customer relationships | — | (3) | (3) | (5) |
| | — | (6) | (6) | (8) |
| Other operating expenses: | | | | |
| Recurring | (47) | (98) | (97) | (97) |
| Non-recurring | — | (2) | (2) | (2) |
| | (47) | (100) | (99) | (99) |
| **Total operating expenses** | **(47)** | **(106)** | **(105)** | **(107)** |
| **Profit before tax** | **11** | **51** | **38** | **39** |
| Tax attributable to shareholders' profits | 1 | (14) | (10) | (11) |
| **Profit for the year** | **12** | **37** | **28** | **28** |

**Reconciliation of operating profit before adjusting items to the segmental result**

| | For the half year ended | For the year ended 31 December | | |
|---|---|---|---|---|
| | 30 June 2014 | 2013 | 2012 | 2011 |
| | | | *(£ million)* *(audited)* | |
| Operating profit before adjusting items | 17 | 49 | 43 | 46 |
| Amortisation of customer relationships | — | (3) | (3) | (5) |
| Non-recurring items | (6) | 5 | (2) | (2) |
| **Profit before tax attributable to owners** | **11** | **51** | **38** | **39** |
| Tax attributable to owners | 1 | (14) | (10) | (11) |
| **Profit for the year attributable to owners** | **12** | **37** | **28** | **28** |

**Consolidated Balance Sheet**

| | As at 30 June 2014 |
|---|---|
| | *(£ million)* *(unaudited)* |
| Provisions | 23 |
| Deferred tax | 27 |
| Other liabilities | 61 |
| **Total liabilities** | **111** |
| Goodwill | 57 |
| Customer relationships | 136 |
| Property, plant and equipment | 8 |
| Financial investments | 37 |
| Other assets | 59 |
| Cash and cash equivalents | 68 |
| **Total assets** | **365** |
| **Net assets** | **254** |

## SECTION B: UNAUDITED PRO FORMA IFRS FINANCIAL INFORMATION RELATING TO THE GROUP

*The unaudited pro forma financial information of the Group set out below (the "**unaudited Pro Forma IFRS Financial Information**") comprises an unaudited pro forma statement of the consolidated IFRS financial position of the Group.*

*The unaudited Pro Forma IFRS Financial Information has been prepared to illustrate the effect of the following transactions, as if each had occurred on 30 June 2014:*

*(i) the Divestment and the receipt of the net proceeds and the prepayment of £250 million of the Impala Facility which was funded from the proceeds of the Divestment;*

*(ii) the issue of the £300 million 7 year unsecured senior bonds at an annual coupon of 5.75 per cent. from the Group's financing vehicle, PGH Capital Limited on 7 July 2014 (being the Senior Bonds)). The net proceeds from the Senior Bonds were used to prepay existing bank debt on 7 July; and*

*(iii) the refinancing of the Group's remaining senior bank debt and PIK Notes into a single 5 year £900 million unsecured bank facility at PGH Capital Limited on 23 July 2014. As part of the bank refinancing a further prepayment of £206 million of existing debt was made, financed by existing internal resources.*

*The unaudited Pro Forma IFRS Financial Information has not been adjusted to reflect any other transactions or results between 30 June 2014 and the date of this Prospectus, except where otherwise indicated in the notes to the unaudited Pro Forma IFRS Financial Information.*

*The unaudited Pro Forma IFRS Financial Information has been prepared for illustrative purposes only, in a manner consistent with the IFRS accounting policies adopted by the Guarantor and, because of its nature, it addresses a hypothetical situation and therefore does not represent the Group's actual financial position or results. The unaudited Pro Forma IFRS Financial Information has been prepared on the basis set out in the notes below.*

## Unaudited Pro Forma Statement of Consolidated IFRS Financial Position of the Group

| | As at 30 June 2014 (unaudited)(1) | Pro forma adjustments for the Group (unaudited): Divestment of Ignis Asset Management(2) | Receipt of net Divestment proceeds(3) | Prepayment of Impala Facility funded by divestment(4) | Issuance of £300 million unsecured senior bond(5) | Prepayment of Impala Facility funded by senior bond issuance(6) | £900 million unsecured bank facility and refinancing of senior bank debt and PIK Notes(7) | As at 30 June 2014 Pro forma |
|---|---|---|---|---|---|---|---|---|
| | | | | (£ million) | | | | |
| **Equity and Liabilities** | | | | | | | | |
| **Equity attributable to owners of the parent** | | | | | | | | |
| Share capital | — | — | — | — | — | — | — | 0 |
| Share premium | 1,038 | — | — | — | — | — | — | 1,038 |
| Other reserves | — | — | — | — | — | — | — | 0 |
| Shares held by employee trust and Group entities | (14) | — | — | — | — | — | — | (14) |
| Foreign currency translation reserve | 85 | — | — | — | — | — | — | 85 |
| Retained earnings | 951 | (254) | 384 | — | — | — | — | 1,081 |
| **Total equity attributable to owners of the parent** | 2,060 | (254) | 384 | — | — | — | — | 2,190 |
| **Non-controlling interests** | | | | | | | | |
| Perpetual Reset Capital Securities | 397 | — | — | — | — | — | — | 397 |
| UK Commercial Property Trust Limited | 428 | — | — | — | — | — | — | 428 |
| **Total equity Liabilities** | 2,885 | (254) | 384 | — | — | — | — | 3,015 |
| Pension scheme deficit | 98 | — | — | — | — | — | — | 98 |
| Insurance contract liabilities | 43,646 | — | — | — | — | — | — | 43,646 |
| **Financial liabilities** | | | | | | | | |
| Investment contracts | 8,508 | — | — | — | — | — | — | 8,508 |
| Borrowings | 2,285 | — | — | (250) | 296 | (296) | (195) | 1,840 |
| Deposits received from reinsurers | 384 | — | — | — | — | — | — | 384 |
| Derivatives | 1,616 | — | — | — | — | — | — | 1,616 |
| Net asset value attributable to unit holders | 5,431 | — | — | — | — | — | — | 5,431 |
| Obligations for repayment of collateral received | 5,324 | — | — | — | — | — | — | 5,324 |
| Provisions | 26 | — | — | — | — | — | — | 26 |
| Deferred tax | 335 | — | — | — | — | — | — | 335 |
| Reinsurance payables | 12 | — | — | — | — | — | — | 12 |
| Payables related to direct insurance contracts | 402 | — | — | — | — | — | — | 402 |
| Current tax | 149 | — | — | — | — | — | — | 149 |
| Accruals and deferred income | 92 | — | — | — | — | — | — | 92 |
| Other payables | 1,514 | — | — | — | — | — | — | 1,514 |
| Liabilities classified as held for sale | 111 | (111) | — | — | — | — | — | 0 |
| **Total liabilities** | 69,933 | (111) | --- | (250) | 296 | (296) | (195) | 69,377 |
| **Total equity and liabilities** | 72,818 | (365) | 384 | (250) | 296 | (296) | (195) | 72,392 |

| | | Pro forma adjustments for the Group (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **As at 30 June 2014 (unaudited)**[(1)] | **Divestment of Ignis Asset Management**[(2)] | **Receipt of net Divestment proceeds**[(3)] | **Prepayment of Impala Facility funded by divestment**[(4)] | **Issuance of £300 million unsecured senior bond**[(5)] | **Prepayment of Impala Facility funded by senior bond issuance**[(6)] | **£900 million unsecured bank facility and refinancing of senior bank debt and PIK Notes**[(7)] | **As at 30 June 2014 Pro forma** |
| | | | | *(£ million)* | | | | |
| **Assets** | | | | | | | | |
| Pension scheme surplus ............ | 276 | — | — | — | — | — | — | 276 |
| Intangible assets........................ | 1,746 | — | — | — | — | — | — | 1,746 |
| Property, plant and equipment... | 15 | — | — | — | — | — | — | 15 |
| Investment property .................. | 1,683 | — | — | — | — | — | — | 1,683 |
| **Financial assets** | | | | | | | | |
| Loans and receivables ............... | 1,560 | — | — | — | — | — | — | 1,560 |
| Derivatives................................ | 1,349 | — | — | — | — | — | — | 1,349 |
| Equities..................................... | 13,869 | — | — | — | — | — | — | 13,869 |
| Investment in joint ventures ...... | 118 | — | — | — | — | — | — | 118 |
| Fixed and variable rate income securities................................... | 35,643 | — | — | — | — | — | — | 35,643 |
| Collective investment schemes . | 2,438 | — | — | — | — | — | — | 2,438 |
| Insurance assets ........................ | 2,899 | — | — | — | — | — | — | 2,899 |
| Current tax................................ | 7 | — | — | — | — | — | — | 7 |
| Prepayments and accrued income ...................................... | 421 | — | — | — | — | — | — | 421 |
| Other receivables ...................... | 1737 | — | — | — | — | — | — | 1737 |
| Cash and cash equivalents......... | 8,692 | — | 384 | (250) | 296 | (296) | (195) | 8,631 |
| Assets classified as held for sale ........................................... | 365 | (365) | — | — | — | — | — | --- |
| **Total assets** .............................. | 72,818 | (365) | 384 | (250) | 296 | (296) | (195) | 72,392 |

Notes:

(1) The consolidated statement of IFRS financial position of the Group as at 30 June 2014 has been extracted, without material adjustment, from the 2014 Half Year Report and Accounts.

(2) These adjustments remove the assets, liabilities and retained earnings of Ignis Asset Management and its subsidiaries, reflecting that following the Divestment, the Group holds no continuing interest in those companies. The financial information of Ignis Asset Management and its subsidiaries has been extracted, without material adjustment, from the 2014 Half Year Report and Accounts.

(3) The receipt of net divestment proceeds with a retained earnings impact of £384 million comprises the following amounts:

(i) Receipt of gross cash proceeds on completion of the divestment of £390 million; and

(ii) Settlement of a net post-completion payment to Standard Life Investments of £6 million, calculated in accordance with the terms of the Divestment Agreement.

(4) This adjustment reflects the prepayment of £250 million of the Impala Facility made in connection with the Impala Facility Agreement, funded by part of the net consideration received from the Divestment.

(5) This adjustment reflects the issuance of a £300 million 7 year unsecured senior bond by the Group's financing vehicle, PGH Capital Limited. Transaction fees of £4 million have been capitalised against the value of the instrument.

(6) An adjustment has been made to reflect the use of the net proceeds of £296 million arising from the senior bond issuance to prepay the Impala Facility.

(7) These adjustments reflect the refinancing of the Group's remaining senior bank debt and PIK Notes and comprise the following amounts:

(i) PGH Capital Limited entered into a new £900 million unsecured bank facility, the gross proceeds of which have been used to prepay the Group's senior bank debt and PIK Notes;

(ii) The cash payment of transaction fees associated with the bank facility of £14 million, which have been capitalised against the value of the instrument; and

(iii) The use of £206 million of gross internal cash resources to prepay the remaining outstanding senior debt and PIK Notes. As £25 million of the debt repaid related to instruments held by other Group companies, the net impact on Group cash and cash equivalents of the repayments is a reduction of £181 million. The intragroup borrowings were eliminated in the consolidated statement of financial position as at 30 June 2014.

Borrowings comprise the following items:

| | | Proforma adjustments for the Group (Unaudited) | | | | |
|---|---|---|---|---|---|---|
| | **As at 30 June 2014** | **Prepayment of Impala Facility funded by divestment** | **Issuance of £300 million unsecured senior bond** | **Prepayment of Impala Facility funded by senior bond issuance** | **Issuance of £900 million unsecured bank facility and refinancing of senior bank debt and PIK Notes** | **As at 30 June 2014 Pro forma** |
| | | | *(£ million)* | | | |
| **Total policyholder borrowings** | 503 | — | — | — | — | 503 |
| **Shareholder borrowings** | | | | | | |
| £200m 7.25 per cent. Unsecured subordinated loan | 155 | — | — | — | | 155 |
| £75 million secured loan note | 77 | — | — | — | (77) | — |
| £425 million syndicated facility | 304 | — | — | — | (304) | — |
| £2,260 million syndicated facility | 1,122 | (250) | — | (296) | (576) | — |
| £100 million PIK Notes and PIK Facility | 124 | — | — | — | (124) | — |
| PGH Capital facility | — | — | — | — | 886 | 886 |
| PGH Capital senior bond | — | — | 296 | — | — | 296 |
| **Total shareholder borrowings** | 1,782 | (250) | 296 | (296) | (195) | 1,337 |
| **Total borrowings** | 2,285 | (250) | 296 | (296) | (195) | 1,840 |

## SECTION C: ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA IFRS FINANCIAL INFORMATION

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Building a better working world

INVESTOR IN PEOPLE

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Dublin 2

The Directors
Phoenix Group Holdings (the "**Guarantor**")
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY-1104, Cayman Islands

21 January 2015

Dear Sirs

We report on the unaudited Pro Forma IFRS financial information (the "**Pro Forma IFRS Financial Information**") set out in Section B "Unaudited Pro Forma IFRS Financial Information relating to the Group" in the prospectus dated 21 January 2015 (the "**Prospectus**") 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 disposal of Ignis Asset Management and the prepayment of £250 million of the Impala Facility using those proceeds, the issuance of a £300m unsecured bond and the prepayment of £296 million of the Impala Facility using those proceeds, and the issuance of a £900m unsecured banking facility and refinancing of senior bank debt and PIK notes with those proceeds might have affected the financial information presented on the basis of the IFRS accounting policies adopted by Phoenix Group Holdings (the "**Guarantor**") in preparing the IFRS financial statements for the period ended 30 June 2014. 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 applicable law 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 of Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Prospectus.

### Responsibilities

It is the responsibility of the Directors of the Issuer and of the Guarantor 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 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 Guarantor.

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 accounting policies of the Guarantor.

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 IFRS accounting policies adopted by the Guarantor.

### 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

## SECTION D: UNAUDITED PRO FORMA MCEV FINANCIAL INFORMATION RELATING TO THE GROUP

*The unaudited pro forma financial information of the Group set out below (the "unaudited Pro Forma MCEV Financial Information") comprises an unaudited pro forma statement of Group MCEV.*

*The unaudited Pro Forma MCEV Financial Information has been prepared to illustrate the effect of the following transactions, as if each had occurred on 30 June 2014:*

*(i) the Divestment and the receipt of the net proceeds; and the prepayment of £250 million of the Impala Facility, which was funded from the proceeds of the Divestment;*

*(ii) the issue of the £300 million 7 year unsecured senior bonds at an annual coupon of 5.75 per cent. from the Group's financing vehicle; PGH Capital Limited on 7 July 2014 (being the Senior Bonds). The net proceeds from the Senior Bonds were used to prepay the Impala Facility on 7 July; and*

*(iii) the refinancing of the Group's remaining senior bank debt and PIK Notes into a single five year £900 million unsecured bank facility at PGH Capital Limited on 23 July 2014. As part of the bank refinancing a further prepayment of £206 million of existing debt was made, financed by existing internal resources.*

*The unaudited Pro Forma MCEV Financial Information has not been adjusted to reflect any other transactions or results between 30 June 2014 and the date of this Prospectus, except where otherwise indicated in the notes to the unaudited Pro Forma MCEV Financial Information.*

*The unaudited Pro Forma MCEV Financial Information has been prepared for illustrative purposes only, in a manner consistent with the MCEV accounting policies adopted by the Guarantor and, because of its nature, it addresses a hypothetical situation and therefore does not represent the Group's actual financial position or results. The unaudited Pro Forma MCEV Financial Information has been prepared on the basis set out in the notes below.*

| | | **Pro forma adjustments for the Group (unaudited)** | | | | |
|---|---|---|---|---|---|---|
| | **As at 30 June 2014 (unaudited)**(1) | **Divestment of Ignis Asset Management**(2) | **Receipt of net Divestment proceeds**(3) | **Issuance of £300 million unsecured bond**(4) | **Issuance of £900 million unsecured bank facility and refinancing of senior bank PIK Notes**(5) | **As at 30 June 2014 Pro forma** |
| | | | *(£ million)* | | | |
| Group MCEV................................................ | 2,328 | (91) | 384 | (4) | (14) | 2,603 |

Notes:

(1) The Group MCEV as at 30 June 2014 has been extracted, without material adjustment, from the 2014 Half Year Report and Accounts.

(2) An adjustment of £91 million has been made to remove the assets and liabilities of Ignis Asset Management and its subsidiaries on an MCEV basis following the Divestment. This reflects the IFRS net asset impact of £254 million as noted in Section A of Part V: "*Unaudited Pro Forma IFRS Financial Information relating to the Group*" of this Prospectus, adjusted to remove £166 million of intangibles net of related deferred tax, which are not recognised on an MCEV basis, and add back £3 million of other adjustments.

(3) The cash proceeds on completion and the post completion payment of £384 million are as detailed in Section A of Part V: *"Unaudited Pro Forma IFRS Financial Information relating to the Group"* of this Prospectus.

(4) The issuance of the £300 million unsecured bond is as detailed in Section A of Part V: *"Unaudited Pro Forma IFRS financial information relating to the Group"* of this Prospectus, except for a reduction in MCEV of £4 million to write-up the value of the liability to market value on an MCEV basis.

(5) The issuance of the £900 million unsecured bank facility and refinancing of the Group's senior debt and PIK Notes is as detailed in Section A of Part V: *"Unaudited Pro Forma IFRS financial information relating to the Group"* of this Prospectus, except for a reduction in MCEV of £14 million to write-up the value of the £900 million bank facility liability to market value on an MCEV basis.

Included within Group MCEV is shareholder debt at the following values:

| | | Proforma adjustments for the Group (Unaudited) | | | | |
|---|---|---|---|---|---|---|
| | **As at 30 June 2014** | **Prepayment of Impala Facility funded by divestment** | **Issuance of £300 million unsecured senior bond** | **Prepayment of Impala Facility funded by senior bond issuance** | **Issuance of £900 million unsecured bank facility and refinancing of senior bank debt and PIK Notes** | **As at 30 June 2014 Pro forma** |
| | | | *(£ million)* | | | |
| **Shareholder borrowings** | | | | | | |
| £200m 7.25 per cent. Unsecured subordinated loan | 214 | — | — | — | — | 214 |
| £75 million secured loan note | 77 | — | — | — | (77) | — |
| £425 million syndicated facility | 304 | — | — | — | (304) | — |
| £2,260 million syndicated facility | 1,122 | (250) | — | (296) | (576) | — |
| £100 million PIK Notes and PIK Facility | 124 | — | — | — | (124) | — |
| Tier 1 bonds at market value | 390 | — | — | — | — | 390 |
| PGH Capital facility | — | — | — | — | 900 | 900 |
| PGH Capital senior bond | — | — | 300 | — | — | 300 |
| **Total shareholder borrowings** | 2,231 | (250) | 300 | (296) | (181) | 1,804 |

Notes:

The Tier 1 Bonds (Perpetual Reset Capital Securities) are accounted for as equity under IFRS and are shown above at market value net of internal holdings.

The PLL subordinated debt (£200m 7.25 per cent. unsecured subordinated loan notes), the PGH Capital facility and the PGH Capital senior bonds are shown above at market value.

## SECTION E: ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA MCEV FINANCIAL INFORMATION

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The Directors
Phoenix Group Holdings (the "**Guarantor**")
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY-1104, Cayman Islands

21 January 2015

Dear Sirs

We report on the unaudited Pro Forma MCEV financial information (the "**Pro Forma MCEV Financial Information**") set out in Section D "Unaudited Pro Forma MCEV Financial Information Relating to the Group" in the prospectus dated 21 January 2015 (the "**Prospectus**") which has been prepared on the basis described in the notes to the unaudited Pro Forma MCEV Financial Information, for illustrative purposes only, to provide information about how the disposal of Ignis Asset Management and the prepayment of £250 million of the Impala Facility using those proceeds, the issuance of a £300m unsecured bond and the prepayment of £296 million of the Impala Facility using those proceeds, and the issuance of a £900m unsecured banking facility and refinancing of senior bank debt and PIK notes with those proceeds might have affected the financial information presented on the basis of the MCEV accounting policies adopted by Phoenix Group Holdings (the "**Guarantor**") in preparing the MCEV financial statements for the period ended 30 June 2014. 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 applicable law 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 of Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Prospectus.

### Responsibilities

It is the responsibility of the Directors of the Issuer and of the Guarantor to prepare the Pro Forma MCEV 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 Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma MCEV 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 MCEV 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 MCEV Financial Information with the Directors of the Guarantor.

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 MCEV Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Guarantor.

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 MCEV Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the MCEV accounting policies adopted by the Guarantor.

### 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 to Annex IX of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes (if issued):*

The issue of the £428,113,000 6.625 per cent. Guaranteed Subordinated Notes due 2025 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 17 and forming a single series with the Notes) was (save in respect of any such further notes) authorised by a resolution of the board of directors of PGH Capital Limited (the "**Issuer**") passed on 10 December 2014 and 6 January 2015. The subordinated guarantee of the Notes was authorised by a resolution of the board of directors of Phoenix Group Holdings (the "**Guarantor**") passed on 27 November 2014. The Notes are constituted by a trust deed (the "**Trust Deed**") dated 23 January 2015 between the Issuer, the Guarantor and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include all persons for the time being and from time to time appointed as the trustee or trustees under the Trust Deed) as trustee in respect of the Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the paying agency agreement (the "**Agency Agreement**") dated 23 January 2015 relating to the Notes between the Issuer, the Guarantor, the Trustee, Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**", which expression shall include any successor thereto) and Citibank, N.A., London Branch as transfer agent (the "**Transfer Agent**", which expression shall include any successor thereto and any additional transfer agents appointed thereunder) and as initial principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor thereto, and, together with any further paying agents appointed thereunder, the "**Paying Agents**", which expression shall include any successors thereto) are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom) and at the specified offices of the Principal Paying Agent, the Registrar and any Transfer Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

### 1 Form, Denomination and Title

(a) *Form and Denomination*

The Notes are issued in registered form in principal amounts of £100,000 and integral multiples of £1,000 in excess thereof (referred to as the "**principal amount**" of a Note, and references in these Conditions to "**principal**" in relation to a Note shall be construed accordingly) without coupons attached. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer (failing whom the Guarantor) will procure to be kept by the Registrar (the "**Register**") on which shall be entered the names, addresses and account details of Noteholders and the particulars of the Notes held by them and of all transfers and repayments of Notes.

(b) *Title*

Title to the Notes passes only by transfer and registration in the Register. The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" means the person against whose name a Note is registered in the Register (or, in the case of joint holders, the first named thereof). Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding of Notes.

## 2 Transfers of Notes and Issue of Certificates

*(a)* *Transfers*

Subject to Conditions 2(*d*) and (*e*), each Note may be transferred (in whole or in part, subject to such transfer being in an integral multiple of £1,000) by depositing the Certificate issued in respect of that Note, together with the form of transfer in respect thereof duly completed and executed at the specified office of the Registrar or a Transfer Agent.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons not exceeding four in number) or a nominee.

*(b)* *Delivery of new Certificates*

Each new Certificate to be issued upon a transfer of Notes will, within five Business Days of receipt by the Registrar or the relevant Transfer Agent of the duly completed, executed and (where applicable) stamped form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note (but free of charge to the Noteholder) to the address specified in the form of transfer. The form of transfer shall be available at the specified offices of the Transfer Agents.

*Except in the limited circumstances described in this Prospectus (see "Summary of Provisions relating to the Notes whilst in Global Form — Exchange"), owners of book-entry interests in the Notes will not be entitled to receive physical delivery of Certificates.*

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

*(c)* *Formalities free of charge*

Registration of transfer of any Notes will be effected without charge by or on behalf of the Issuer, the Guarantor, the Registrar or any Transfer Agent but upon (i) payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) the Registrar or the relevant Transfer Agent being satisfied with the documents of title and/or the identity of the person making the application.

*(d)* *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 6(*d*) and Condition 13 and ending on the date referred to in such notice as having been fixed for such payment of Arrears of Interest.

*(e)* *Regulations*

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one and will be available at the specified offices of the Transfer Agents.

**3 Status of the Notes**

*(a)* *Status*

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders in any Issuer Winding-Up are as described in the Trust Deed, this Condition 3 and Condition 11.

*(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 Condition 20) of the Issuer in accordance with the provisions of Condition 14); 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 but not the rights and claims of the Trustee in its personal capacity under the Trust Deed which shall not be subordinated) and the Noteholders against the Issuer in relation to the Notes and the Trust Deed (including, without limitation, any damages awarded for breach of any obligations under the Notes 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 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 have been on-lent by the Issuer, the Guarantor or any Subsidiary of the Guarantor to any member of the Insurance Group in a form having the characteristics to qualify as Tier 2 Capital as at the date such on-loan is 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, "**Parity Obligations of the Issuer**"); and

(B) in priority to (i) 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, the "**Junior Obligations of the Issuer**").

*(c)* *Further Consequences of an Issuer Winding-Up*

(i) If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and (subject to Condition 11(*d*)) the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee (subject to Condition 3(*c*)(iv)) or the Noteholders would (when taken together with any amounts recovered by the Noteholders or the Trustee on their behalf in the Guarantor Winding-Up) recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a direct, subordinated obligation of the Guarantor for an amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee), then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such excess amounts and the right thereto to the Guarantor and shall irrevocably authorise and direct (and be treated as having irrevocably authorised and directed) the Issuer (or its liquidator or administrator, as appropriate) to make the payment of such excess amounts directly to the Guarantor, and following such assignment the Trustee and the Noteholders shall have no further rights against the Issuer or the Guarantor in respect of such excess amounts.

(ii) If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders (in each case in relation to any amount which they are entitled to receive in such Issuer Winding-Up in respect of, or arising under, the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder) but subject to Condition 3(*c*)(iv)) shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably all such amounts and all rights thereto to the Guarantor as consideration for the Guarantor's agreement to assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer pursuant to, and in accordance with, Condition 4(*d*) and irrevocably to have authorised and directed the Issuer (or its liquidator or administrator, as appropriate) to make the payment of any such amounts directly to the Guarantor, and following such assignment the Trustee and the Noteholders shall have no further rights against the Issuer or the Guarantor in respect of such amounts.

This Condition 3(*c*)(ii) is without prejudice to any claim which the Trustee and the Noteholders may have, in such circumstances, against the Guarantor under Condition 4 or against any Substituted Obligor substituted for the Issuer pursuant to Condition 14 (but, for the avoidance of doubt, the occurrence of the Issuer Winding-Up shall not, in such circumstances, result in acceleration of any payment of principal, interest (including Arrears of Interest) or other amounts under the Notes or the Trust Deed or any amount under the Guarantee in respect thereof against the Guarantor or any such Substituted Obligor).

*If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not occurred or is not occurring, the Guarantor shall assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer under the Notes and the Trust Deed. In any such* *circumstances, payments of interest and principal will (subject as provided in these Conditions) fall due for payment on the originally scheduled dates.*

(iii) If, in the circumstances contemplated in Conditions 3(*b*) and/or this Condition 3(*c*), any payment is made to the Trustee (subject to Condition 3(*c*)(iv)) and/or the Noteholders in respect of, or arising under, the Notes and/or the Trust Deed by the liquidator or the administrator (as applicable) of the Issuer, such amount shall (to the extent that the same is not subsequently repaid by the Trustee or, as appropriate, the Noteholders to the Issuer (or its liquidator or administrator) or otherwise paid by the Trustee or, as appropriate, the Noteholders, to the Guarantor in pursuance of the assignments set out in Conditions 3(*c*)(i) or 3(*c*)(ii)), reduce *pro tanto* the corresponding amounts payable by the Guarantor under the Guarantee and/or, as appropriate, any Substituted Obligor substituted for the Issuer pursuant to Conditions 4(*d*) and 14.

(iv) 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 a Guarantor Winding-Up has occurred or is occurring (but subject to Condition 3(*c*)(iv)), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes or the Trust Deed (including, without limitation, the Guarantee) shall be conditional upon:

(i) the Guarantor being solvent at the time for payment by the Issuer or, as appropriate, the Guarantor, and no amount shall be payable under or arising from the Notes or the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Guarantor could make such payment and still be solvent immediately thereafter; and

(ii) the Insurance Group Borrower being solvent at the time for payment by the Issuer or, as appropriate, the Guarantor, and no amount shall be payable under or arising from the Notes or the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Insurance Group Borrower could, if the Notes were issued by the Insurance Group Borrower, make such payment and still be solvent immediately thereafter (disregarding, for this purpose only, any Corresponding Payment made or to be made by it under the Tier 2 On-Loan),

(together, the "**Solvency Condition**").

*As at the Issue Date, the Insurance Group Borrower will be Phoenix Life Holdings Limited.*

For the purposes of this Condition 3(*d*), the Guarantor will be solvent if (i) it is able to pay its debts owed to Senior Creditors of the Guarantor and Parity Creditors of the Guarantor as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons in their capacity as Junior Creditors of the Guarantor).

For the purposes of this Condition 3(*d*), the Insurance Group Borrower will be solvent if (i) it is able to pay its debts owed to Senior Creditors of the Insurance Group Borrower and Parity Creditors of the Insurance Group Borrower as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons in their capacity as Junior Creditors of the Insurance Group Borrower).

A certificate as to the solvency or lack thereof of the Guarantor signed by two Directors of the Guarantor or, if there is a winding-up or administration of the Guarantor, the liquidator or, as the case may be, the administrator of the Guarantor shall (in the absence of manifest error) be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders 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.

A certificate as to the solvency or lack thereof of the Insurance Group Borrower signed by two Directors of the Guarantor or the Insurance Group Borrower or, if there is a winding-up or administration of the Insurance Group Borrower, the liquidator or, as the case may be, the administrator of the Insurance Group Borrower shall (in the absence of manifest error) be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof 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, subject to applicable law, each Noteholder 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 might otherwise have against the Issuer or the Guarantor in respect of or arising under the Notes 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 in respect of or arising under the Notes or the Trust Deed are discharged by set-off, such Noteholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, as appropriate, the Guarantor or, if applicable, the liquidator, trustee, receiver or administrator of the Issuer or, as appropriate, the Guarantor and, until such time as payment is made, will hold a sum equal to such amount on trust for the Issuer or, as appropriate, the Guarantor 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 Guarantee**

*(a)* *Status*

The Guarantor has (subject as provided in Conditions 3(*d*), 4(*b*), 6(*a*), 6(*d*) and 8(*b*)) in the Trust Deed guaranteed on the terms set out therein the due and punctual payment of all principal, interest, Arrears of Interest and other sums from time to time which are due and payable in respect of the Notes or under, or pursuant to, the Trust Deed ("**Guaranteed Amounts**"). The obligations of the Guarantor under such guarantee (including those referred to in Condition 4(*d*)) (the "**Guarantee**") constitute direct, unsecured and subordinated obligations of the Guarantor.

*(b)* *Subordination*

If:

(i) at any time an order is made, or an effective resolution is passed, for the winding-up of the Guarantor (except, in any such case, (A) 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 (including under the Guarantee) shall thereby become payable or (B) the substitution in place of the Guarantor of a successor in business (as defined in Condition 20) of the Guarantor in accordance with the provisions of Condition 14); or

(ii) an administrator of the Guarantor is appointed and such administrator gives notice that it intends to declare and distribute a dividend or other distribution of the assets of the Guarantor, (the events in Conditions 4(*b*)(i) and 4(*b*)(ii) each being a "**Guarantor Winding-Up**"), the rights and claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed which shall not be subordinated) and the Noteholders against the Guarantor in relation to Guaranteed Amounts (including, without limitation, any damages awarded for breach of any obligations under the Notes and the Trust Deed) will be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Guarantor, but shall rank:

(A) at least *pari passu* with (i) all claims of holders of subordinated obligations of the Guarantor (including, without limitation, obligations pursuant to a guarantee) which are, or have been, incurred by the Guarantor in relation to a financing transaction where some or all of the proceeds from the relevant financing transaction have been on-lent by the Guarantor or (where the Guarantor's obligation under the relevant financing transaction is a subordinated guarantee obligation) any Subsidiary of the Guarantor to any member of the Insurance Group in a form having the characteristics to qualify as Tier 2 Capital as at the date such on-loan is made and (ii) all claims of holders of other subordinated obligations of the Guarantor (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, *pari passu* with the Notes (together, "**Parity Obligations of the Guarantor**"); and

(B) in priority to (i) the claims of holders of any undated or perpetual subordinated obligations of the Guarantor (including, without limitation, obligations pursuant to a guarantee), (ii) the claims of holders of any subordinated obligations of the Guarantor (including, without limitation, obligations pursuant to a guarantee) which rank, or are expressed to rank, junior to the Guarantee and (iii) the claims of holders of all classes of shares in the Guarantor (together, the "**Junior Obligations of the Guarantor**").

*(c)* *Amounts recovered in a Guarantor Winding-Up*

If, in the event of a Guarantor Winding-Up, any payment is made to the Trustee (subject to Condition 3(*c*)(iv)) and/or the Noteholders in respect of, or arising under, the Guarantee by the liquidator or the administrator (as applicable) of the Guarantor, such amount shall (to the extent that the same is not subsequently repaid by the Trustee or, as appropriate, the Noteholders to the Guarantor or its liquidator or administrator), reduce *pro tanto* the corresponding amounts payable by the Issuer under the Notes and the Trust Deed.

*(d)* *Obligations of the Guarantor upon an Issuer Winding-Up where no Guarantor Winding-Up has occurred or is occurring*

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not also occurring, the Guarantor shall (as more particularly described in the Trust Deed) assume, or shall procure the assumption by a Subsidiary of the Guarantor of, all of the obligations of the Issuer under the Notes and the Trust Deed as if references in the Notes and the Trust Deed to "the Issuer" were to the Guarantor or the relevant Subsidiary (as the case may be) but provided that the claims of the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders against the Guarantor in respect of all payment obligations under the Notes and the Trust Deed shall rank *pari passu* with the ranking of the Guarantee.

Accordingly, once the Guarantor has assumed, or has procured the assumption by its Subsidiary of, such obligations of the Issuer under the Notes and the Trust Deed, the Guarantor or the relevant Subsidiary, as the case may be, shall have all of the rights and benefits applicable to the Issuer in the Conditions and the Trust Deed including, without limitation, the Issuer's ability to redeem, vary or substitute the Notes in the circumstances set out in Conditions 8(*d*) and 8(*e*).

Notwithstanding any other provision of these Conditions, in circumstances where an Issuer Winding-Up has occurred at a time when a Guarantor Winding-Up has not also occurred or is not also occurring, the occurrence of the Issuer Winding-Up shall not result in the acceleration of any payment of principal, interest (including Arrears of Interest) or other amounts under the Notes or the Trust Deed (whether against the Issuer or any Subsidiary substituted therefor in accordance with this Condition 4(*d*)) or of any amount under the Guarantee in respect thereof against the Guarantor.

## 5 Interest

*(a) Interest Rate and Interest Payment Dates*

Each Note bears interest on its principal amount at the rate of 6.625 per cent. per annum (the "**Interest Rate**") from (and including) the Issue Date to (but excluding) the Maturity Date (or such later date as the Notes become due for redemption in accordance with these Conditions) and shall (subject to Conditions 3(d) and 6) be payable annually in arrear on each Interest Payment Date, in each case as provided in this Condition 5.

Accordingly, the amount of interest payable (subject to Conditions 3(*d*) and 6 and subject as set out below in respect of the first Interest Period) on each Interest Payment Date shall be £66.25 per Calculation Amount (as defined below).

The first Interest Period shall be a short first Interest Period for the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and the amount of interest payable (subject to Conditions 3(*d*) and 6) on the first Interest Payment Date shall be £59.72 per Calculation Amount.

*(b) Interest Accrual*

Interest shall cease to accrue on each Note on the due date for redemption (which due date shall, in the case of deferral of a redemption date in accordance with Condition 8(*b*), be the latest date to which redemption of the Notes is so deferred) unless payment is improperly withheld or refused, in which event interest shall continue to accrue (in each case, both before and after judgment) as provided in the Trust Deed.

*(c) Calculation of interest*

Save as set out below, where it is necessary to compute an amount of interest payable in respect of any Note for a period that is equal to or shorter than an Interest Period (as defined below), such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the Interest Period in which the relevant period falls.

Where it is necessary to compute an amount of interest payable in respect of any Note for a period ending prior to the first Interest Payment Date, such interest shall be calculated on the basis of the actual number of days for the period from (and including) the Issue Date to (but excluding) the relevant payment date divided by 365.

Where interest is to be calculated in respect of a period which is longer than one Interest Period, the interest payable in respect of each Note shall be calculated by applying the Interest Rate to the Calculation Amount, multiplying the product by the sum of: (x) the actual number of days in the Calculation Period falling in the Interest Period in which it begins divided by the actual number of days in such Interest Period or, in the case of the first Interest Period, 365; and (y) the number of days in the Calculation Period falling in the next Interest Period divided by the actual number of days in such Interest Period and rounding the resulting figure to the nearest penny (half a penny being rounded upwards) and multiplying such rounded figure by a fraction equal to the principal amount of such Note divided by the Calculation Amount.

For the purposes of this Condition 5(*c*):

"**Calculation Amount**" means £1,000 in principal amount of the Notes; and

"**Calculation Period**" means the relevant period for which interest is to be calculated (from and including the first day of such period to but excluding the last).

## 6 Deferral of Interest

*(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, failing whom the Guarantor, shall notify the Noteholders, the Trustee and the Principal Paying Agent of any Regulatory Deficiency Interest Deferral Date in accordance with Condition 6(*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 neither the Issuer nor the Guarantor shall have any obligation to make such payment on that date.

A certificate signed by two Directors of the Guarantor confirming that (i) 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 (ii) a Regulatory Deficiency Interest Deferral Event has ceased to occur and/or payment of interest on the Notes would not result in a new or further Regulatory Deficiency Interest Deferral Event occurring, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof 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.

*(b) No default*

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral by the Issuer of any payment of interest (i) on a Regulatory Deficiency Interest Deferral Date in accordance with Condition 6(*a*) or (ii) as a result of non-satisfaction of the Solvency Condition in accordance with Condition 3(*d*) will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

*(c) Arrears of Interest*

Any interest on the Notes not paid on an Interest Payment Date as a result of (i) any mandatory deferral of such payment of interest pursuant to Condition 6(*a*) or (ii) non-satisfaction of the Solvency Condition in accordance with Condition 3(*d*) shall, to the extent and 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*) 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 or the Guarantor to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 and in any event will become due and payable by the Issuer 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 6(*a*)); or

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

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

If either of the events set out in Conditions 6(*d*)(i) or (iii) occurs the Issuer or the Guarantor promptly shall give notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13.

*(e) Notice of Deferral*

The Issuer or, as the case may be, the Guarantor shall notify the Trustee, the Principal Paying Agent and the Noteholders in writing in accordance with Condition 13:

(i) not less than five Business Days prior to an Interest Payment Date, if that Interest Payment Date is a Regulatory Deficiency Interest Deferral Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs (or if the 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 or, as the case may be, the Guarantor shall give notice of the interest deferral in accordance with Condition 13 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) not less than five Business Days prior to an Interest Payment Date, if payment of any interest will not become due 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, less than five Business Days prior to an Interest Payment Date, the Issuer or, as the case may be, the Guarantor shall give notice of the interest deferral in accordance with Condition 13 as soon as reasonably practicable following such circumstances occurring or being determined (and in either case such notice shall specify that interest will not be paid as a result of non-satisfaction of the Solvency Condition).

## 7 Payments

*(a) Payments in respect of Notes*

(i) Payments of principal, interest and Arrears of Interest shall be made on the due date for payment to the persons shown on the Register at the close of business on the date falling 15 days before the due date in respect of such payment. Payment of principal, interest and Arrears of Interest will be made by transfer to the registered account of the relevant Noteholder.

(ii) Payments of principal, interest and Arrears of Interest due at the time of redemption of the Notes will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents.

(iii) For the purposes of this Condition 7, a Noteholder's registered account means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the Register at the close of business on the date falling two Business Days before the due date for payment.

*(b) Payments subject to applicable laws*

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

*(c)* *No commissions*

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

*(d)* *Payment on Business Days*

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated on the due date for payment or, in the case of a payment of principal, interest or Arrears of Interest due at the time of redemption of the Notes, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of any Paying Agent.

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

*(e)* *Partial payments*

If the amount of principal or interest (including, without limitation, Arrears of Interest) which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

*(f)* *Agents*

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

(i) a Principal Paying Agent;

(ii) a Registrar and a Transfer Agent;

(iii) a Paying Agent having a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 - 27 November 2000; and

(iv) such other agents as may be required by any stock exchange on which the Notes may be listed.

Notice of any termination or appointment and of any changes in specified offices of any of the Agents will be given to the Noteholders promptly by the Issuer or the Guarantor in accordance with Condition 13.

## 8 Redemption, Substitution, Variation and Purchase

*(a)* *Redemption at Maturity*

Subject to Conditions 8(*b*) and 8(*g*)(ii) and to the satisfaction of the Solvency Condition, unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 18 December 2025 (the "**Maturity Date**"), together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

*(b)* *Deferral of redemption date*

(i) No Notes shall be redeemed on the Maturity Date pursuant to Condition 8(*a*) or, prior to the Maturity Date, pursuant to Condition 8(*d*) or 8(*e*) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption were made pursuant to this Condition 8.

(ii) The Issuer, failing whom the Guarantor, shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 13 no later than five Business Days prior to any date set for redemption of the Notes if such redemption is to be deferred as a result of circumstances where:

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

(2) the Solvency Condition would be breached if such redemption were to occur;

(3) regulatory approval (to the extent then required under the Relevant Rules) is not given for such redemption; and/or

(4) such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date,

provided that if the relevant event requiring redemption to be deferred occurs, or is determined, less than five Business Days prior to the date set for redemption, such notice shall be given as soon as reasonably practicable following the occurrence or determination of such event; and provided further that failure to make any such notification shall not oblige the Issuer to redeem the Notes or the Guarantor to make any payment in respect of redemption of the Notes, or cause the same to become due and payable, on such date and neither the Issuer nor the Guarantor shall 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 the case may be, the date specified in the notice of redemption by the Issuer under Condition 8(*d*) or 8(*e*) as a result of Condition 8(*b*)(i) above or Condition 8(*g*)(ii) below, the Issuer shall (subject to Condition 8(*g*)(ii) and, in the case of (1) and (2) below, to satisfaction of the Solvency Condition) redeem the Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest up to (but excluding) the date fixed for redemption, upon the earliest of:

(1) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless on such 10th Business Day a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a new or further Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 8(*b*)(i) and this Condition 8(*b*)(iii) will apply *mutatis mutandis* to determine the due date for redemption of the Notes); or

(2) the date falling 10 Business Days after the relevant regulatory approval for redemption of both the Notes (where such approval is required under the Relevant Rules) and any Tier 2 On-Loan is received; or

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

(iv) If on any date Condition 8(*b*)(i) does not apply, but redemption of the Notes is mandatorily deferred as a result of non-satisfaction of the Solvency Condition, such payment shall be made on the 10th

Business Day immediately following the day that the Solvency Condition is satisfied, provided that the payment of such principal (together with any accrued but unpaid interest and/or any Arrears of Interest) would not result in the Solvency Condition not being satisfied. If on the date otherwise fixed for redemption pursuant to this Condition 8(*b*)(iv) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if such payment were to be made, then such payment shall not be made on such date and Condition 8(*b*)(iii) shall apply *mutatis mutandis* to determine the due date for payment of such principal (together with any accrued but unpaid interest and/or Arrears of Interest).

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

(vi) In circumstances where redemption of the Notes has been deferred, the Issuer, failing whom the Guarantor, shall, as soon as reasonably practicable following its determination of the new scheduled redemption date in accordance with this Condition 8(*b*), give notice to the Trustee and to the Noteholders in accordance with Condition 13 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).

*(c) Deferral of redemption not a default*

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 3(*d*) or 8(*b*) will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

*(d) Redemption, variation or substitution for taxation reasons*

Subject to Conditions 3(*d*), 8(*b*)(i) and 8(*g*), 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 21 January 2015 (a) on the next Interest Payment Date, the Issuer will or would be required to pay additional amounts as provided or referred to in Condition 9; 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 such additional amounts; or (c) 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 Ireland or (if the Issuer becomes subject to corporation tax in the United Kingdom) the United Kingdom; or (d) the Issuer or the Guarantor, as the case may be, suffers or would suffer any other material adverse tax consequence in connection with the Notes or the Guarantee in a Relevant Jurisdiction other than the Cayman Islands; 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 Principal Paying Agent, the Registrar and, in accordance with Condition 13, the Noteholders (which notice shall specify the date set for redemption and shall, subject as aforesaid, be irrevocable) either:

(1) redeem all (but not some only) of the Notes, at any time at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (A) with respect to Conditions 8(*d*)(i)(a) and 8(*d*)(i)(b) above, the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts; (B) with respect to Condition 8(*d*)(i)(c) 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 Ireland or (if the Issuer becomes subject to corporation tax in the United Kingdom) the United Kingdom, as referred to in Condition 8(*d*)(i)(c) above; or (C) with respect to Condition 8(*d*)(i)(d) 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

(2) 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 8(*g*) 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 a Capital Disqualification Event*

Subject to Conditions 3(*d*), 8(*b*)(i) and 8(*g*), if a Capital Disqualification Event has occurred and is continuing, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13, the Trustee, the Principal Paying Agent and the Registrar, which notice shall specify the date set for redemption and shall (subject as aforesaid) be irrevocable, either:

(i) at any time redeem all (but not some only) of the Notes at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or

(ii) at any time substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Qualifying Securities and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 8(*g*) below and in the definition of "Qualifying Securities") agree to such substitution or variation,

provided, however, that

(A) the Issuer shall not be entitled to redeem the Notes pursuant to (i) above upon the occurrence of a Capital Disqualification Event if such Capital Disqualification Event has occurred as a result of any change to the terms of, or any replacement of, the Tier 2 On-Loan which, at the time of such change or replacement, would, or would be reasonably likely to, result in the occurrence of a Capital Disqualification Event; and

(B) 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)* *Trustee role on redemption, variation or substitution; Trustee not obliged to monitor*

(i) Subject to Condition 8(*g*), 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 as may be necessary) to give effect to the substitution or variation of the Notes for or into Qualifying Securities pursuant to Condition 8(*d*) or 8(*e*) above, 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 or the Guarantor may, subject as provided above, redeem the Notes as provided in this Condition 8.

(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 8 and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge pursuant to these Conditions or the Trust Deed of the occurrence of any event or circumstance to which this Condition 8 relates, it shall be entitled to assume that no such event or circumstance exists or has arisen.

*(g)* *Preconditions to redemption, variation, substitution and purchases*

(i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 8(*d*) or 8(*e*), the Issuer, failing whom the Guarantor, shall deliver to the Trustee a certificate signed by two Directors of the Issuer or the Guarantor, as the case may be, stating that either:

(1) one or more of the requirements referred to in Condition 8(*d*)(i) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it; or

(2) a Capital Disqualification Event has occurred and is continuing as at the date of the certificate and that such Capital Disqualification Event did not occur as a result of any change to the terms of, or any replacement of, the Tier 2 On-Loan which, at the time of such change or replacement, would, or would be reasonably likely to, result in the occurrence of a Capital Disqualification Event;

and, in the case of any redemption before the sixth anniversary of the Issue Date, it would have been reasonable for the Issuer to conclude, judged at the Issue Date, that the circumstance entitling the Issuer to exercise the right of redemption was not reasonably foreseeable.

In the case of (1) above, the Issuer, failing whom the Guarantor, 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 8(*d*)(i) above 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 (1) 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 Guarantor, the Trustee, the Noteholders and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate and (in the case of (1) 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, the Guarantor or any Subsidiary of the Guarantor, 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:

(1) each of the Issuer, the Guarantor and the Insurance Group being in continued compliance with the Regulatory Capital Requirements (if any) applicable to them;

(2) the Issuer or the Guarantor having complied with the Regulatory Clearance Condition;

(3) in the case of any redemption or purchase of the Notes prior to the sixth anniversary of the Issue Date, the Issuer replacing the Notes with, or repaying the Notes out of the proceeds of a new issue of, capital having the characteristics of Tier 2 Capital or a better quality form of regulatory capital; and

(4) compliance with any other applicable requirements of the Relevant Rules regarding redemption, purchase, substitution or variation (as the case may be) of the Notes.

A certificate from any two Directors of the Guarantor 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 be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Noteholders 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.

*As at the Issue Date, Condition 8(g)(ii) does not apply to any redemption, substitution, variation or purchase of the Notes.*

*(h)* *Compliance with stock exchange rules*

In connection with any substitution or variation of the Notes in accordance with Condition 8(*d*) or Condition 8(*e*), 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.

*(i)* *Purchases*

Subject to Condition 8(*g*)(ii), the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries may at any time purchase Notes in any manner and at any price. All Notes purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor may be held, reissued, resold or, at the option of the relevant purchaser, surrendered for cancellation to the Registrar.

*(j)* *Cancellations*

All Notes redeemed or substituted by the Issuer pursuant to this Condition 8, and all Notes purchased and surrendered for cancellation pursuant to Condition 8(*i*), will forthwith be cancelled. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

## 9 Taxation

*(a)* *Payment without withholding*

All payments of principal, interest and Arrears of Interest by or on behalf of the Issuer in respect of the Notes, and all payments of Guaranteed Amounts in respect of principal, interest and Arrears of Interest by or on behalf of the Guarantor under the Guarantee, shall be made free and clear of, and without withholding or deduction for, 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 will result in receipt by the Noteholders 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 in respect of any Note:

(i) *Other connection*: held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(ii) *Lawful avoidance of withholding*: 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 Certificate is presented for payment; or

(iii) *Surrender more than 30 days after the Relevant Date*: where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days; or

(iv) *Payment to individuals*: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 - 27 November 2000; or

(v) *Payment by another Paying Agent*: where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Certificate to another Paying Agent in a European Union Member State (provided that there is such a Paying Agent appointed at the relevant time).

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

*(b) Additional Amounts*

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 9 or under any undertakings given in addition to, or in substitution for, this Condition 9 pursuant to the Trust Deed.

## 10 Prescription

Claims against the Issuer in respect of principal, interest and Arrears of Interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest or Arrears of Interest) from the Relevant Date in respect of them. Claims against the Guarantor for payment in respect of Guaranteed Amounts will become prescribed 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 or Arrears of Interest) from the Relevant Date in respect of them.

## 11 Events of Default

*(a)* *Right to institute and/or prove in a winding-up*

*The right to prove in winding-up proceedings in respect of the Issuer is limited to those circumstances where both an Issuer Winding-Up and a Guarantor Winding-Up have occurred or are occurring.*

*The right to institute winding-up proceedings in respect of the Guarantor is limited to circumstances where a payment under the Guarantee has become due and has not been paid by the Guarantor. For the avoidance of doubt, unless a Guarantor Winding-Up has occurred, no amount shall be due from the Guarantor 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 6(a) or 8(b).*

(i) *Issuer non-payment*: If (1) neither an Issuer Winding-Up nor a Guarantor Winding-Up has occurred or (2) an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring and, in either case, the Issuer is in default in the payment of any interest or of any principal due in respect of the Notes or any of them, then the Trustee and the Noteholders may, in accordance with Conditions 3(*b*) and 3(*c*) and the terms of the Guarantee, but subject also to Conditions 3(*d*), 6(*a*) and 8(*b*), claim under the Guarantee for such payments due but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed. For the avoidance of doubt, a default by the Issuer in the payment of any interest or of any principal due in respect of the Notes or the Coupons or any of them in the circumstances where this Condition 11(*a*)(i) applies shall not result in the acceleration of any payment of principal, interest (including Arrears of Interest) or other amounts under the Notes or the Trust Deed (whether against the Issuer or any Subsidiary substituted therefor in accordance with Condition 4(*d*)) or of any amount under the Guarantee in respect thereof against the Guarantor.

(ii) *Issuer Winding-Up together with Guarantor Winding-Up*: If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and (subject to Condition 11(*d*)) the Noteholders may claim under the Guarantee for the Guaranteed Amounts and 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):

(x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest; and

(y) prove in the relevant winding up or administration of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor (in which regard Conditions 3(*b*), 3(*c*), 4(*b*) and 4(*c*) will apply, as appropriate), but may take no further or other action to enforce, prove or claim for any payment by the Issuer or the Guarantor in respect of the Notes or the Trust Deed (including, without limitation, the Guarantee).

(iii) *Guarantor non-payment and Guarantor Winding-Up*: If

(A) default is made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee; or

(B) a Guarantor Winding-Up occurs at any time when an Issuer Winding-Up has not occurred or is not occurring,

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):

(x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at an amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest; and

(y) in the case of Condition 11(*a*)(iii)(A) above, institute proceedings for the winding-up of the Guarantor and, in the case of Condition 11(*a*)(iii)(A) or (B) above, prove in the winding-up and/or administration of the Guarantor and/or claim in the liquidation of the Guarantor,

but (in either case) may take no further or other action against either the Issuer or the Guarantor to enforce, prove or claim for any payment due in respect of the Notes or the Trust Deed (including the Guarantee), save as provided in Condition 3(*c*)(iv).

Any claim against the Issuer pursuant to this Condition 11(*a*)(iii) for amounts in respect of principal, interest and/or Arrears of Interest shall be reduced if, and to the extent that, any amounts in respect of the same are first paid by or recovered from the Guarantor (including, without limitation, in a Guarantor Winding-Up). Any claim against the Guarantor pursuant to this Condition 11(*a*)(iii) for amounts in respect of Guaranteed Amounts in respect of principal, interest and/or Arrears of Interest shall be reduced if, and to the extent that, any amounts in respect of the same are first paid by or recovered from the Issuer (including, without limitation, in an Issuer Winding-Up).

*(b) Enforcement*

Without prejudice to Condition 11(*a*), the Trustee may at its discretion and without further notice institute such proceedings or take such steps or actions against the Issuer or the Guarantor as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor (as the case may be) under the Trust Deed or the Notes (other than any payment obligation of the Issuer or the Guarantor under or arising from the Notes or the Trust Deed (including the Guarantee), including any payment of damages awarded for breach of any obligations thereunder) but in no event shall the Issuer or the Guarantor, 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 11(*b*) shall, however, prevent the Trustee or the Noteholders from pursuing the remedies to which they are entitled pursuant to Condition 11(*a*).

*(c) Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 11(*a*) or 11(*b*) above against the Issuer or the Guarantor to enforce the terms of the Trust Deed, the Notes or any other action under or pursuant to the Trust Deed unless (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*

No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for the winding up or claim in the liquidation of the Issuer or the Guarantor or to prove in such winding up unless the Trustee, having become so bound to proceed or being able to prove in such winding up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholders 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 11.

*(e)* *Extent of Noteholders' remedy*

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 11, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Notes or under the Trust Deed.

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.

**12 Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or other Transfer Agent (or any other place notice of which shall have been given in accordance with Condition 13) upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer or the Guarantor may reasonably require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**13 Notices**

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

**14 Substitution of Issuer or Guarantor**

*(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 and (c) such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders:

(i) to the substitution of the Guarantor or its successor in business in place of the Issuer or any previous substitute under this Condition 14 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 14 as principal debtor under the Trust Deed 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 unconditionally and irrevocably guaranteed on a subordinated basis, in accordance with Condition 4, by the Guarantor), to the substitution of a Subsidiary or parent company of the Issuer or its successor in business in place of the Issuer or any previous substitute under this Condition 14 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 14,

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 the Issuer or the Guarantor having complied with the Regulatory Clearance Condition.

*(b)* *Mandatory substitutions*

In the circumstances set out in Condition 4(*d*), the Guarantor shall (as more particularly described in the Trust Deed) assume, or shall procure the assumption by a Subsidiary of the Guarantor of, all of the obligations of the Issuer under the Notes and the Trust Deed.

In addition, 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:

(1) as Guarantor in place of the Guarantor (or any previous substitute therefor under this Condition 14), 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

(2) as Issuer in place of the Issuer (or any previous substitute therefor under this Condition 14), 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 Limited (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.

Any such substitution shall be subject to the the Issuer or the Guarantor having complied with the Regulatory Clearance Condition.

*(c)* *Change in law*

In the case of any substitution pursuant to this Condition 14, 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 14 to Noteholders in accordance with Condition 13 as soon as reasonably practicable following such substitution.

## 15 Meetings of Noteholders, Modification, Waiver and Authorisation

*(a)* *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee or Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which falls within the proviso to paragraph 3 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. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of 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 8(*d*) or 8(*e*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or the Guarantor in the circumstances set out in Condition 4(*d*) or upon the substitution of a Newco pursuant to Condition 14.

*(b)* *Modification, waiver, authorisation and determination*

In addition to the requirements of Conditions 8(*d*), 8(*e)* and 14, the Trustee may agree, without the consent of the Noteholders, 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 3 of Schedule 3 to the Trust Deed unless required for the substitution or variation of the Notes pursuant to Condition 8(*d*) or 8(*e*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or the Guarantor in the circumstances set out in Condition 4(*d*) or upon the substitution of a Newco pursuant to Condition 14.

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

*(d)* *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 15 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

**16 Indemnification of the Trustee and its Contracting with the Issuer and the Guarantor**

*(a)* *Indemnification of the Trustee*

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

*(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 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 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, 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.

## 17 Further Issues

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

## 18 Governing Law

*(a) Governing law*

The Trust Deed (including the Guarantee) and the Notes, and any non-contractual obligations arising out of or in connection with the Trust Deed (including the Guarantee) and/or the Notes, are governed by, and shall be construed in accordance with, English law, save that (i) the provisions of Condition 3 relating to the status and subordination of the Notes, the corresponding provisions of the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, Irish law and (ii) the provisions of Condition 4 relating to the status and subordination of the Guarantee and the corresponding provisions of the Trust Deed 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. Each of the Issuer and the Guarantor have 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).

Each of the Issuer and the Guarantor has appointed Phoenix Life Holdings Limited of 1 Wythall Green Way, Wythall, Birmingham, B47 6WG, United Kingdom as agent for service of process in England.

## 19 Rights of Third Parties

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

## 20 Defined Terms

In these Conditions:

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

"**Agents**" means the Principal Paying Agent, the Registrar and the Transfer Agents or any of them and shall include such other agents appointed from time to time under the Agency Agreement;

"**Arrears of Interest**" has the meaning given in Condition 6(*c*);

"**Assets**" means the unconsolidated gross assets of the Guarantor or the Insurance Group Borrower, as applicable, as shown in the latest published audited balance sheet of the Guarantor or the Insurance Group Borrower, as applicable, but adjusted for contingencies and subsequent events, all in such manner as the Directors of the Guarantor or the Insurance Group Borrower, as applicable, may determine;

"**Business Day**" means (i) except for the purposes of Conditions 2 and 7(*d*), a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for general business in London, (ii) for the purposes of Condition 2, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in the city in which the specified office of the Registrar or Transfer Agent with whom a Certificate is deposited in connection with a transfer is located and (iii) for the purpose of Condition 7(*d*), a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered;

a "**Capital Disqualification Event**" shall be deemed to have occurred if:

(1) at any time, as a result of (a) any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so), (b) the implementation of Solvency II or the Relevant Rules implementing Solvency II or (c) any change to Solvency II (or change to the interpretation of Solvency II by any court or authority entitled to do so) following its implementation:

    (A) in circumstances where the Issuer is not a member of the Insurance Group at that time, no part of the principal amount of the Tier 2 On-Loan counts or qualifies;

    (B) in circumstances where the Issuer is a member of the Insurance Group at that time, no part of the principal amount of the Notes counts or qualifies; or

    (C) in the circumstances where such capability to count derives only from transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, some but not all of (x) the Tier 2 On-Loan (where the Issuer is not a member of the Insurance Group at that time) or (y) the principal amount of the Notes (where the Issuer is a member of the Insurance Group at that time) counts or qualifies,

    as Tier 2 Capital for the purposes of at least one of the Insurance Group, the Insurance Group Borrower or any other insurance or reinsurance undertaking within the Insurance Group on a solo, group or consolidated basis, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than a limitation by virtue of the transitional or grandfathering provisions referred to in (C) above); and

(2) in the case of (A) and (C)(x) above, the Issuer and the Guarantor were unable to prevent such event occurring and are unable to remedy such event without amending the Tier 2 On-Loan, in each case by taking reasonable measures available to them; or

(3) in the case of (B) and (C)(y) above, the Issuer and the Guarantor (x) were unable to prevent such event occurring and (y) are unable to remedy such event, in each case by taking reasonable measures available to them;

"**Certificate**" has the meaning given in Condition 1(*a*);

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

"**Corresponding Payment**" means, with respect to any scheduled payment by the Issuer in respect of the Notes on any date, any corresponding scheduled payment by the Insurance Group Borrower in respect of the Tier 2 On-Loan on or around the same date, and shall more particularly include:

*(a)* with respect to any payment of interest (including, without limitation, any Arrears of Interest) in respect of the Notes on any date, the equivalent interest payment scheduled to be paid by the Insurance Group Borrower in respect of the Tier 2 On-Loan on or around the same date; and

*(b)* with respect to any payment of principal in respect of the Notes on any date, the equivalent principal repayment scheduled to be made by the Insurance Group Borrower in respect of the Tier 2 On-Loan on or around the same date;

"**Directors**" means the directors of the Issuer, the Guarantor, the Insurance Group Borrower or a Substituted Obligor (as the case may be) from time to time;

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

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

"**Guarantee**" has the meaning given in Condition 4(*a*);

"**Guaranteed Amounts**" has the meaning given in Condition 4(*a*);

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

"**Guarantor Winding-Up**" has the meaning given in Condition 4(*b*);

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

*(a)* the winding-up of any insurance undertaking within the Insurance Group; or

*(b)* the appointment of an administrator of any insurance undertaking within the Insurance Group,

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

"**Insurance Group**" means the Insurance Group Parent Entity and its Subsidiaries;

"**Insurance Group Borrower**" means, at any time, the entity (being a member of the Insurance Group) which is at such time the borrower under the Tier 2 On-Loan;

*On the Issue Date, the Tier 2 On-Loan will be advanced by the Issuer to Phoenix Life Holdings Limited.*

"**Insurance Group Parent Entity**" means Phoenix Life Holdings Limited, or any other Subsidiary or parent company of the Issuer or the Guarantor (or, if applicable, the Issuer or the Guarantor itself) which from time to time constitutes the highest entity in the relevant EEA 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 Issue Date, the Insurance Group Parent Entity is Phoenix Life Holdings Limited.*

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

"**Interest Payment Date**" means 18 December in each year, commencing on 18 December 2015;

"**Interest Period**" means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next following Interest Payment Date;

"**Interest Rate**" has the meaning given to it in Condition 5(*a*);

"**Issue Date**" means 23 January 2015;

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

"**Issuer Winding-Up**" has the meaning given in Condition 3(*b*);

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

"**Junior Creditors of the Insurance Group Borrower**" means creditors of the Insurance Group Borrower in relation to (i) claims in respect of undated or perpetual subordinated obligations of the Insurance Group Borrower where the principal amount of such obligations was issued or incurred after the Issue Date, (ii) any other claims that rank, or are expressed to rank, junior to the claims of the Issuer against the Insurance Group Borrower pursuant to the Tier 2 On-Loan and (iii) any share capital of the Insurance Group Borrower;

"**Junior Obligations of the Guarantor**" has the meaning given in Condition 4(*b*);

"**Junior Obligations of the Issuer**" has the meaning given in Condition 3(*b*);

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

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

"**Maturity Date**" has the meaning given in Condition 8(*a*);

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

"**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 immediately prior to the Scheme of Arrangement (the "**Existing Shareholders**") and the Guarantor; 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; (iv) all Subsidiaries of the Guarantor immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Guarantor) are Subsidiaries of the Guarantor (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Guarantor (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 immediately prior to the Scheme of Arrangement;

"**Noteholder**" has the meaning given in Condition 1(*b*);

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

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

"**Parity Creditors of the Insurance Group Borrower**" means creditors of the Insurance Group Borrower whose claims rank, or are expressed to rank, *pari passu* with the claims of the Issuer pursuant to the Tier 2 On-Loan;

"**Parity Obligations of the Guarantor**" has the meaning given in Condition 4(*b*);

"**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;

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

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

"**Proceedings**" has the meaning given to it in Condition 18(*b*);

"**Qualifying Securities**" means securities issued directly by the Guarantor or issued by the Issuer or another entity and guaranteed by the Guarantor (under the Guarantee or a subordinated guarantee equivalent to the Guarantee and conforming to Condition 4 and the Trust Deed) that:

*(a)* have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Guarantor 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 Guarantor 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 at least the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (3) if directly issued by the Guarantor rank or, if issued by another entity, benefit from a guarantee of the Guarantor which ranks, at least *pari passu* with the ranking of the Guarantee; (4) preserve the obligations of (including obligations arising from the exercise of any rights of) the Issuer and the Guarantor 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 8(*d*) and 8(*e*) 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 2004/39/EC) or such other regularly operating, internationally recognised stock exchange in the EEA as selected by the Issuer or the Guarantor and approved by the Trustee;

"**Register**" has the meaning given in Condition 1(*a*);

"**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 or the Guarantor (as the case may be), the PRA having approved, granted permission for, consented to, or having been given due notification of and having not within any applicable time-frame objected to, such act (in any case only if and to the extent such approval, permission, consent or non-objection is required by the PRA or any 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:

(i) 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 applicable to the Issuer, the Guarantor, the Insurance Group Parent Entity, any Subsidiary of the Insurance Group Parent Entity, the Insurance Group Borrower or the Insurance Group to be breached and the continuation of such Insolvent Insurer Winding-up or, as the case may be, such breach is an event) which under the Relevant Rules means that (a) the Issuer must defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes, (b) the Guarantor would, if it were the issuer of the Notes, be required to defer payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes and/or (c) the Insurance Group Borrower would be required to defer the relevant payment of interest if the Notes were issued by the Insurance Group Borrower, and qualified as Tier 2 Capital of the Insurance Group Borrower and/or the Insurance Group (and, for the avoidance of doubt, where these Conditions provide for mandatory deferral of an interest payment if a Regulatory Deficiency Interest Deferral Event would occur if such interest payment were to be made, such payment shall be deferred if a Regulatory Deficiency Interest Deferral Event would occur as a result of payment of the relevant interest amount by any of the Issuer, the Guarantor or (on the basis referred to in (c) above and disregarding, for this purpose only, any Corresponding Payment made or to be made by it under the Tier 2 On-Loan) the Insurance Group Borrower); or

(ii) the PRA having notified the Issuer or the Guarantor 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 under the Notes and/or the Guarantor must defer a payment of Guaranteed Amounts in respect of interest under the Guarantee and the PRA not having revoked such notification; or

(iii) the PRA having notified the Insurance Group Borrower 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 Insurance Group Borrower must defer the Corresponding Payment under the Tier 2 On-Loan and the PRA not having revoked such notification;

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

(i) 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 applicable to the Issuer, the Guarantor, the Insurance Group Parent Entity, any Subsidiary of the Insurance Group Parent Entity, the Insurance Group Borrower 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 (a) the Issuer must defer or suspend redemption of the Notes, (b) the Guarantor would, if it were the issuer of the Notes, be required to defer or suspend redemption of the Notes and/or (c) the Insurance Group Borrower would be required to suspend or defer redemption of the Notes if the Notes were issued by the Insurance Group Borrower, and qualified as Tier 2 Capital of the Insurance Group Borrower and/or the Insurance Group (and, for the avoidance of doubt, where these Conditions provide for mandatory deferral of redemption if a Regulatory Deficiency Redemption Deferral Event would occur if such redemption (or a redemption payment in respect thereof) were to be made, such redemption shall be deferred if a Regulatory Deficiency Redemption Deferral Event would occur as a result of payment of the relevant redemption amounts by any of the Issuer, the Guarantor or (on the basis referred to in (c) above and disregarding, for this purpose only, any Corresponding Payment made or to be made by it under the Tier 2 On-Loan) the Insurance Group Borrower); or

(ii) the PRA having notified the Issuer or the Guarantor 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/or the Guarantor must defer making a payment under the Guarantee of Guaranteed Amounts in respect of a scheduled repayment or redemption of the Notes and the PRA not having revoked such notification; or

(iii) the PRA having notified the Insurance Group Borrower 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 Insurance Group Borrower must defer the Corresponding Payment under the Tier 2 On-Loan and the PRA not having revoked such notification;

"**Relevant Date**" has the meaning given in Condition 9(*a*);

"**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 and Jersey, 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 (including Arrears of Interest) on the Notes and/or any Guaranteed Amounts in respect thereof;

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

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

"**Senior Creditors of the Guarantor**" means:

*(a)* policyholders of the Guarantor (if any) and any other creditors of the Guarantor who are unsubordinated creditors of the Guarantor; and

*(b)* other creditors of the Guarantor whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Guarantor 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 Guarantee including (without limitation) holders of Parity Obligations of the Guarantor and/or Junior Obligations of the Guarantor);

"**Senior Creditors of the Insurance Group Borrower**" means:

*(a)* policyholders of the Insurance Group Borrower (if any) and any other creditors of the Insurance Group Borrower who are unsubordinated creditors of the Insurance Group Borrower; and

*(b)* other creditors of the Insurance Group Borrower whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Insurance Group Borrower but not further or otherwise (and excluding those creditors (i) whose claims are in respect of obligations of the Insurance Group Borrower which are in a form having the characteristics to qualify as Tier 2 Capital or (ii) whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, any claims of the Issuer against the Insurance Group Borrower pursuant to the Tier 2 On-Loan);

"**Senior Creditors of the Issuer**" means:

*(a)* policyholders of the Issuer (if any) and any other creditors of the Issuer who are unsubordinated creditors of the Issuer; and

*(b)* other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer 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);

"**Solvency I**" means the directives adopted by the Parliament and Council of the European Union relating to the taking-up and pursuit of insurance business within the European Union (excluding the Solvency II Directive) and including, without limitation, Directive 2002/83/EC of the European Union (as amended) and Directive 98/78/EC of the European Union (as amended) on the supplementary supervision of insurance undertakings in an insurance group;

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

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

"**Solvency 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 howsoever described in the Relevant Rules (including, for the avoidance of doubt, any minimum capital requirement);

"**Solvency Condition**" has the meaning given in Condition 3(*d*);

"**sterling**" or "**£**" means the lawful currency of the United Kingdom from time to time;

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

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

"**Tier 1 Capital**" and "**Tier 2 Capital**" have the respective meanings given to them by the Relevant Rules;

"**Tier 2 On-Loan**" means the on-loan of the proceeds of the Notes made by the Issuer to the Insurance Group Borrower in a form having the characteristics to qualify as Tier 2 Capital;

"**Transfer Agent**" has the meaning ascribed to it in the preamble to the Conditions;

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

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

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

The following provisions apply to the Notes whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions.

### 1 Relationship of Accountholders with Clearing Systems

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

### 2 Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer, the Guarantor or any of the subsidiaries of the Issuer or the Guarantor will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and shall be duly endorsed (for information purposes only) on the schedule to the Global Certificate.

### 3 Payments

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made to the registered holder of the Global Certificate. Upon payment of any principal or interest, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer and the Guarantor on the schedule to the Global Certificate.

Principal and interest shall be payable in accordance with the Conditions, save that the calculation of interest will be made in respect of the total aggregate principal amount of the Notes represented by this Global Certificate.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent required by the Registrar, to the cash accounts of participants in Euroclear, Clearstream, Luxembourg or any Alternative Clearing System in accordance with the relevant clearing system's rules and procedures.

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

### 4 Meetings

The registered holder of the Global Certificate shall be treated as having one vote in respect of each £1,000 principal amount of Notes represented by the Global Certificate. The Trustee may allow to attend and speak (but not to vote unless such person is a proxy or a representative) at any meeting of Noteholders any accountholder (or the representative of any such person) of a clearing system with an interest in the Notes represented by the Global Certificate on confirmation of entitlement and proof of his identity.

## 5 Notices

So long as all of the Notes are represented by the Global Certificate and it is held by or on behalf of a clearing system, notices to Noteholders will be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions. A notice will be deemed to have been given to accountholders on the first Business Day following the day on which such notice is sent to the relevant clearing system for delivery to entitled accountholders.

Whilst any of the Notes are represented by the Global Certificate, notices to be given by a Noteholder will be given by such Noteholder (where applicable) through Euroclear, Clearstream, Luxembourg or any Alternative Clearing System and otherwise in such manner as the Trustee and the relevant clearing system may approve for this purpose.

## 6 Exchange

Owners of beneficial interests in the Notes in respect of which the Global Certificate is issued will be entitled to have title to the Notes registered in their names and to receive individual Certificates if Euroclear, Clearstream, Luxembourg or any Alternative 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.

In such circumstances, the Issuer will cause sufficient Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholders within 14 days following a request therefor by the registered holder of the Global Certificate. A person with an interest in the Notes represented by the Global Certificate must provide the Registrar with (A) a written order containing instructions and other such information as the Issuer and the Registrar may require to complete, execute and deliver such Certificates; and (B) a certificate to the effect that such person is not transferring its interest in the Global Certificate.

## 7 Transfer

Notes represented by the Global Certificate will be transferable only in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be).

## 8 Trustee's Powers

In considering the interests of Noteholders, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (A) have regard to such information as may have been made available to it by or on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Notes and (B) consider such interests on the basis that such accountholders were the holders of the Notes represented by the Global Certificate.

## 9 Enforcement

For the purposes of enforcement of the provisions of the Trust Deed, the persons named in a certificate of the holder of the Notes represented by the Global Certificate shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

## 10 Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, then:

*(a)* approval of a resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting which is a special quorum resolution), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent. The Principal Paying Agent shall confirm the result of voting on any Electronic Consent in writing to the Issuer, the Guarantor and the Trustee (in a form satisfactory to the Trustee) (which confirmation may be given by email), specifying (as of the deadline for the Electronic Consent): (i) the outstanding principal amount of the Notes and (ii) the outstanding principal amount of the Notes in respect of which consent to the resolution has been given in accordance with this provision. The Issuer, the Guarantor and the Trustee may rely and act without further enquiry on any such confirmation from the Principal Paying Agent and shall have no liability or responsibility to anyone as a result of such reliance or action. The Trustee shall not be bound to act on any Electronic Consent in the absence of such a confirmation from the Principal Paying Agent in a form satisfactory to it; 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 Issuer, the Guarantor and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the Guarantor and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Guarantor have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. None of the Issuer, the Guarantor or the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected

any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

# TERMS OF THE INITIAL TIER 2 ON-LOAN

*The following is, in all material respects, the text of the initial Tier 2 On-Loan to be entered into on or around the Issue Date (subject to completion). As at the Issue Date, the Insurance Group Borrower will be PLHL but (subject to any necessary approval from the PRA) the identity of the Insurance Group Borrower could change on one or more occasions over time and the Issuer and (subject to any necessary approval from the PRA) the relevant Insurance Group Borrower may agree to modify the terms of the Tier 2 On-Loan or replace the Tier 2 On-Loan and may do so without the need for any approval or consent from or notification to the Trustee or the Noteholders.*

**THIS LOAN AGREEMENT** is dated 23 January 2015

**BETWEEN**

(1) **PGH CAPITAL LIMITED**, a company registered in Ireland with registered number 537912 and which has its registered office at Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland (the "**Lender**"); and

(2) **PHOENIX LIFE HOLDINGS LIMITED**, a company registered in England with registered number 06977344 and which has its registered office at 1 Wythall Green Way, Wythall, Birmingham, B47 6WG, United Kingdom (the "**Borrower**").

**WHEREAS:**

The parties wish to confirm the terms of a subordinated intra-group loan to be made available to the Borrower by the Lender.

**IT IS AGREED** as follows:

1. **DEFINITIONS AND INTERPRETATION**

1.1 In this Agreement, unless the context requires otherwise:

"**Advance**" means the advance in an aggregate amount equal to £428,113,000.00 (four hundred and twenty eight million one hundred and thirteen thousand pounds) made by the Lender to the Borrower in accordance with Clause 2, as such advance may be reduced by repayment or prepayment from time to time;

"**Agency Agreement**" means the agency agreement dated 23 January 2015 relating to the Notes between the Lender, Phoenix Group Holdings, Citibank, N.A., London Branch as trustee, Citigroup Global Markets Deutschland AG as registrar and the Principal Paying Agent;

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

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

"**Deferred Interest**" has the meaning set out in Clause 5.3;

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

(a) the winding-up of any insurance undertaking within the Insurance Group (other than the Borrower); or

(b) the appointment of an administrator of any insurance undertaking within the Insurance Group (other than the Borrower),

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

"**Insurance Group**" means the Insurance Group Parent Entity and its Subsidiaries;

"**Insurance Group Parent Entity**" means the Borrower, or any other Subsidiary or parent company of Phoenix Group Holdings or the Lender (or, if applicable, the Lender or Phoenix Group Holdings itself) which from time to time constitutes the highest entity in the relevant EEA 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;

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

"**Interest Payment Date**" has the meaning given in Clause 4.2;

"**Interest Period**" means the period from (and including) the date of this Agreement to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next following Interest Payment Date;

"**Junior Creditors**" means creditors of the Borrower whose claims rank, or are expressed to rank, junior to, the claims of the Lender pursuant to this Agreement, including holders of Junior Obligations;

"**Junior Obligations**" has the meaning set out in Clause 3.1;

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

"**Maturity Date**" means 18 December 2025;

"**Notes**" means the Lender's £428,113,000 6.625 per cent. Guaranteed Subordinated Notes due 2025 issued on the date of this Agreement;

"**Parity Creditors**" means creditors of the Borrower whose claims rank, or are expressed to rank, *pari passu* with the claims of the Lender pursuant to this Agreement, including holders of Parity Obligations;

"**Parity Obligations**" has the meaning set out in Clause 3.1;

"**PRA**" means the Prudential Regulation Authority or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Insurance Group and/or the Borrower;

"**Principal Paying Agent**" means Citibank, N.A., London Branch (or any successor thereto) acting as principal paying agent in relation to the Notes pursuant to the Agency Agreement;

"**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 Borrower, the PRA having approved, granted permission for, consented to, or having been given due notification of and having not within any applicable time-frame objected to, such act (in any case only if and to the extent such approval, permission, consent or non-objection is required by the PRA or any applicable rules of the PRA at the relevant time);

"**Regulatory Deficiency Event**" means (i) 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 applicable to the Borrower and/or the Insurance Group and/or any Subsidiary of the Borrower to be breached and the continuation of such Insolvent Insurer Winding-up or, as the case may be, such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Borrower must defer or suspend a payment of interest and/or principal under this Agreement or (ii) the PRA having notified the Borrower 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 Borrower must defer a payment of interest and/or principal under this Agreement and the PRA not having revoked such notification;

"**Relevant Rules**" means any legislation, rules or regulations (whether having the force of law or otherwise) applicable in the United Kingdom from time to time and applying to the Borrower or any insurance or reinsurance undertaking within the Insurance Group from time to time relating to the characteristics, features or criteria of own funds or capital resources and the requirement to retain capital resources in excess of a prescribed capital resources requirement and, for the avoidance of doubt and without limitation to the foregoing, includes Solvency I, Solvency II and any legislation, rules or regulations relating to such matters which are supplementary or extraneous to the obligations imposed on EEA member states by Solvency I or Solvency II;

"**Senior Creditors**" means:

(a) any policyholders of the Borrower (if any) and, for the avoidance of doubt, the claims of Senior Creditors who are policyholders shall include all amounts to which any such policyholder would be entitled in its capacity as policyholder under any applicable legislation or rules relating to a winding up of companies limited by guarantee and/or of insurers generally to reflect any right to receive, or expectation of receiving, policyholder benefits which policyholders may have (including, without limitation, such expectations of policyholders to receive discretionary benefits under with-profits policies as are consistent with the relevant PPFM of the Borrower and its obligations to treat customers fairly);

(b) creditors of the Borrower (other than policyholders) who are unsubordinated creditors of the Borrower; and

(c) other creditors of the Borrower whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Borrower but not further or otherwise (other than those whose claims constitute (or relate to a guarantee or other like or similar undertaking or arrangement given by the Borrower in respect of any obligation of any other person which constitute), or would but for any applicable limitation on the amount of any such capital constitute, Tier 1 Capital, Tier 2 Capital or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, any claims of the Lender under this Agreement);

"**Solvency I**" means the directives adopted by the Parliament and Council of the European Union relating to the taking-up and pursuit of insurance business within the European Union (excluding the Solvency II Directive) and including, without limitation, Directive 2002/83/EC of the European Union (as amended) and Directive 98/78/EC of the European Union (as amended) on the supplementary supervision of insurance undertakings in an insurance group;

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

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

"**Solvency 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 howsoever described in the Relevant Rules (including, for the avoidance of doubt, any minimum capital requirement);

"**Solvency Condition**" has the meaning set out in Clause 3.2;

"**Subsidiary**" has the meaning given to that term under section 1159 of the Companies Act 2006;

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

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

"**Winding-Up**" has the meaning set out in Clause 3.1.

2. **ADVANCE AND PAYMENTS**

2.1 **Drawdown**

Drawdown of the Advance shall occur on the date of this Agreement.

The proceeds of the Advance shall be credited to such account as is notified by the Borrower to the Lender.

2.2 **Use of proceeds**

The Borrower shall apply all amounts borrowed by it under this agreement towards general corporate purposes. The Lender is not obliged to monitor or verify how any amount advanced under this agreement is used.

2.3 **Payment on a Business Day**

If the due date for payment under this Agreement is not a Business Day, such payment shall be made on the next Business Day. The Lender will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day.

2.4 **Payment direction**

Unless otherwise agreed between the Lender and the Borrower and subject to the Regulatory Clearance Condition, the Lender hereby directs the Borrower to make any payments due to the Lender under this Agreement by:

(i) making a payment on behalf of the Lender to the Principal Paying Agent for the Notes in an amount equal to the relevant amount due and payable on the Notes on such date; and

(ii) making a payment to the Lender of any remaining amounts due and payable pursuant to this Agreement on such date.

Payments made pursuant to Clause 2.4(i) shall, for the purposes of the Notes and the Agency Agreement, be treated as payments made on behalf of the Lender in accordance with the terms of the Agency Agreement.

Any payments made by the Borrower as set out in this Clause 2.4 shall constitute good discharge of the relevant obligation of the Borrower under this Agreement *pro tanto*.

3. **SUBORDINATION**

3.1 **Subordination**

If:

(i) at any time an order is made, or an effective resolution is passed, for the winding-up of the Borrower (other than on a solvent winding-up solely for the purpose of a reconstruction or amalgamation which does not provide that the Advance or any amount in respect thereof shall thereby become payable or the substitution in place of the Borrower of a successor in business of the Borrower); or

(ii) an administrator of the Borrower is appointed and such administrator gives notice that it intends to declare and distribute a dividend or other distribution of the assets of the Borrower,

(each such event being referred to in this Agreement as a "**Winding-Up**"), the rights and claims of the Lender against the Borrower in relation to amounts payable under this Agreement (including, without limitation, any damages awarded for breach of any obligations under this Agreement) shall be subordinated to the claims of all Senior Creditors but shall rank:

(A) at least *pari passu* with all claims of holders of (i) all subordinated obligations of the Borrower which constitute, and all claims relating to a guarantee of, or other like or similar undertaking or arrangement given or undertaken by the Borrower in respect of, any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital and (ii) all obligations which rank, or are expressed to rank, *pari passu* therewith (together, "**Parity Obligations**"); and

(B) in priority to (a) the claims of holders of (i) any subordinated obligations of the Borrower which rank, or are expressed to rank, junior to the claims of the Lender pursuant to this Agreement, (ii) claims in respect of undated or perpetual subordinated obligations of the Borrower where the principal amount of such obligations was issued or incurred after the date of this Agreement and (iii) all obligations of the Borrower which constitute, and all claims relating to a guarantee of, or other like or similar undertaking or arrangement given or undertaken by the Borrower in respect of, any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute Tier 1 Capital (including, without limitation, in each case by virtue of the operation of any applicable grandfathering provisions under the Relevant Rules) and all obligations which rank, or are expressed to rank, *pari passu* therewith and (b) the claims of holders of any class of shares in the Borrower (together, the "**Junior Obligations**").

3.2 **Solvency Condition**

Other than in circumstances where a Winding-Up has occurred or is occurring, all payments under or arising from (including any damages awarded for breach of any obligations under) this Agreement shall be conditional upon the Borrower being solvent at the time for payment by the Borrower and no amount shall be payable under or arising from this Agreement unless and until such time as the Borrower could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**").

For the purposes of this Clause 3.2, the Borrower will be solvent if (i) it is able to pay its debts owed to Senior Creditors and Parity Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons in their capacity as Junior Creditors).

3.3 **Payments subject to Solvency Condition; No Default**

The Borrower shall not make any payment of principal or interest on the Advance unless the Solvency Condition would be satisfied at the time of and immediately after any such payment. The non-payment of any interest on any Interest Payment Date or of principal, in either case, in accordance with Clause 3.2, shall not constitute a default by the Borrower and will not give the Lender a right to accelerate the Advance.

3.4 **Set-off**

Subject to applicable law, the Lender waives, and will be deemed to have waived, any right of set-off or counterclaim that it might otherwise have against the Borrower in respect of or arising under this Agreement whether prior to or in liquidation, winding-up or administration. Notwithstanding the preceding sentence, if any of the rights and claims of the Lender in respect of or arising under this Agreement are discharged by set-off, the Lender will immediately pay an amount equal to the amount of such discharge to the Borrower or, if applicable, the liquidator, trustee, receiver or administrator of the Borrower and, until such time as payment is made, will hold a sum equal to such amount on trust for the Borrower 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**

4.1 **Interest rate**

The Advance will accrue interest on its principal amount from (and including) the date of this Agreement to (but excluding) the Maturity Date (or such later date as the Advance becomes due for repayment in accordance with this Agreement) at a rate of 6.675 per cent. per annum in accordance with the provisions of this Clause 4. The first Interest Period shall be a short first Interest Period for the period from (and including) the date of this Agreement to (but excluding) the first Interest Payment Date and the amount of interest payable (subject to Clauses 3.2 and 5) in respect of the Advance on the first Interest Payment Date shall be £25,758,034.42.

4.2 **Interest payment dates**

Subject to Clauses 3.2, 4.3, 5.1 and 8, interest shall be payable on the Advance annually in arrear on 18 December (each, an "**Interest Payment Date**") in each year commencing on 18 December 2015 (with a short first interest period).

4.3 **Day count fraction for periods other than normal Interest Periods**

Save as set out below, where it is necessary to compute an amount of interest payable in respect of the Advance for a period that is equal to or shorter than an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the date of this Agreement) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the date of this Agreement) to (but excluding) the relevant payment date divided by the actual number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

Where it is necessary to compute an amount of interest payable in respect of the Advance for a period ending prior to the first Interest Payment Date, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the date of this Agreement to (but excluding) the relevant payment date divided by 365.

Where interest is to be calculated in respect of a period which is longer than one Interest Period, the interest payable shall be calculated by applying the applicable interest rate payable hereunder to the Advance and multiplying the product by the sum of: (x) the actual number of days in the Calculation Period falling in the Interest Period in which it begins divided by the actual number of days in such Interest Period (or, in the case of the first Interest Period, 365) and (y) the number of days in the Calculation Period falling in the next Interest Period divided by the actual number of days in such Interest Period and rounding the resulting figure to the nearest penny (half a penny being rounded upwards).

For the purposes of this Clause 4.3 "**Calculation Period**" means the relevant period for which interest is to be calculated (from and including the first day of such period to but excluding the last).

4.4 **Accrual of interest**

Subject to Clauses 3.2, 5.1 and 8, the Advance will cease to bear interest from the due date for repayment (which due date shall, in the case of deferral of a repayment date in accordance with this Agreement, be the latest date to which repayment of the Advance is so deferred), if any, unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until the day on which all sums due in respect of the Advance up to that day are received by or on behalf of the Lender.

5. **DEFERRAL OF INTEREST OR PRINCIPAL**

5.1 **Mandatory deferral of interest or principal**

The Borrower shall defer payment of any principal amount of the Advance and/or any interest otherwise payable on the Advance if a Regulatory Deficiency Event has occurred and is continuing or would occur if the relevant payment were made.

5.2 **No event of default**

The deferral of any interest payment on any Interest Payment Date or of any payment of principal pursuant to and in accordance with this Clause 5 or Clause 6 will not constitute a default by the Borrower and will not give the Lender any right to accelerate the Advance.

5.3 **Deferred Interest**

Any interest on the Advance not paid on an Interest Payment Date as a result of (i) deferral pursuant to Clause 5.1 or (ii) non-satisfaction of the Solvency Condition shall, to the extent and so long as the same remains unpaid, constitute "**Deferred Interest**". Deferred Interest shall not itself bear interest.

5.4 **Subsequent payment of Deferred Interest**

Subject to Clause 3.2 and to a Regulatory Deficiency Event not occurring at such time or as a result of such payment and, if then required under the Relevant Rules, to satisfaction of the Regulatory Clearance

Condition, any Deferred Interest may be paid by the Borrower to the Lender in whole or in part at any time. Subject (in the case of (i) and (iii) below) to Clause 3.2, such interest will otherwise become due and payable by the Borrower in whole (and not in part) upon the earliest of the following dates:

(i) the next Interest Payment Date on which a Regulatory Deficiency Event is not occurring and will not occur as a result of such payment; or

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

(iii) the due date for any repayment of the Advance pursuant to this Agreement (taking account of any subsequent deferral of such repayment pursuant to Clauses 3.2, 5.1 and/or 6.3).

5.5 **Subsequent payment of principal**

If repayment of the Advance does not occur on the Maturity Date as a result of Clause 5.1 above or the Solvency Condition or due to the non-satisfaction of the Regulatory Clearance Condition, the Borrower shall (subject, in the case of (1) and (2) below, to satisfaction of the Solvency Condition) repay the Advance at its principal amount together with any Deferred Interest and any other accrued and unpaid interest up to (but excluding) the date fixed for repayment, upon the earliest of:

(1) the date falling 10 Business Days after the date the Regulatory Deficiency Event has ceased (unless on such 10th Business Day a further Regulatory Deficiency Event has occurred and is continuing or repayment of the Advance on such date would result in a new or further Regulatory Deficiency Event occurring, in which case the provisions of Clause 5.1 and this Clause 5.5 will apply *mutatis mutandis* to determine the due date for repayment of the Advance); or

(2) the date falling 10 Business Days after the relevant regulatory approval for repayment of the Advance is received by the Borrower; or

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

If on any date Clause 5.1 does not apply, but repayment of the Advance is mandatorily deferred as a result of non-satisfaction of the Solvency Condition, such payment shall be made on the 10th Business Day immediately following the day that the Solvency Condition is satisfied, provided that the payment of the Advance (together with any accrued but unpaid interest and/or any Deferred Interest) would not result in the Solvency Condition not being satisfied. If on the date otherwise fixed for repayment pursuant to this Clause 5.5 a Regulatory Deficiency Event has occurred and is continuing, or would occur if such payment were to be made, then such payment shall not be made on such date and this Clause 5.5 shall apply *mutatis mutandis* to determine the due date for payment of the Advance (together with any accrued but unpaid interest and/or Deferred Interest).

## 6. REPAYMENT OF THE ADVANCE

6.1 Subject to Clauses 5.1, 5.5 and 6.3 and to the satisfaction of the Solvency Condition both prior to and immediately follow such payment, unless previously repaid as provided below, the Borrower will repay the Advance at its principal amount on 18 December 2025 (the "**Maturity Date**"), together with any Deferred Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

6.2 The Lender may not at any time demand repayment of the Advance in whole or in part. Notwithstanding the previous sentence, (subject to the requirements of Clause 6.3) the Lender and the Borrower may at any time agree between themselves to an early repayment of the Advance in accordance with the Relevant Rules.

6.3 Any repayment of the Advance under this Clause 6 is conditional upon the Borrower having complied with the Regulatory Clearance Condition and being in continued compliance with the Regulatory Capital Requirements (if and to the extent then required by the Relevant Rules). For so long as required under the Relevant Rules, any repayment of the Advance prior to the sixth anniversary of the date of this Agreement pursuant to Clause 6.1 or 6.2 shall also be conditional upon the Borrower first replacing the Advance with regulatory capital of the same or better quality.

7. **TAXATION**

7.1 All payments of principal and interest under this Agreement by the Borrower shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In such event the Borrower shall pay such additional amounts as will result in receipt by the Lender after such withholding or deduction of such amounts as would have been received by it had no such withholding or deduction been required.

7.2 If the Lender receives a credit for or refund of any taxes payable by it or similar benefit by reason of any withholding or deduction within Clause 7.1 then it shall reimburse to the Borrower such part of such additional amounts paid pursuant Clause 7.1 above will leave the Lender (after such reimbursement) in no better and no worse position than would have arisen if the Borrower had not been required to make such deduction or withholding.

8. **EVENT OF DEFAULT AND ENFORCEMENT**

8.1 **Event of Default**

If the Borrower is in a Winding-Up, the Lender at its discretion may give notice to the Borrower that the Advance is, and it shall accordingly forthwith become, immediately due and payable at an amount equal to the principal amount of the Advance then outstanding together with any Deferred Interest and any other accrued and unpaid interest and prove in the winding-up and/or administration of the Borrower and/or claim in the liquidation of the Borrower, but may take no further or other action against the Borrower to enforce, prove or claim for any payment due in respect of the Advance.

8.2 **Enforcement**

Without prejudice to Clause 8.1, the Lender may at its discretion and without further notice institute such proceedings or take such steps or actions against the Borrower as it may think fit to enforce any term or condition binding on the Borrower under this Agreement (other than any payment obligation of the Borrower under or arising from this Agreement, including any payment of damages awarded for breach of any obligations hereunder) but in no event shall the Borrower, 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 Clause 8.2 shall, however, prevent the Lender from pursuing the remedies to which it is entitled pursuant to Clause 8.1.

8.3 **Extent of Lender's remedy**

No remedy against the Borrower, other than as referred to in this Clause 8, shall be available to the Lender, whether for the recovery of amounts owing in respect of the Advance or under this Agreement or in respect of any breach by the Borrower of any of its other obligations under or in respect of the Advance or under this Agreement.

## 9. ASSIGNMENT AND TRANSFER

9.1 The Borrower may not at any time assign, transfer, charge or deal in any other similar manner with any of its rights under this Agreement.

9.2 The Lender may not at any time assign, transfer, charge or deal in any other similar manner with any of its rights under this Agreement, save that the Lender shall transfer or assign its rights under this Agreement to any person substituted as issuer of the Notes contemporaneously with such substitution.

## 10. PARTIAL INVALIDITY

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any jurisdiction, that shall not affect the legality, validity or enforceability of the remaining provisions in that jurisdiction or of that provision in any other jurisdiction.

## 11. MISCELLANEOUS

### 11.1 Governing law

This Agreement and any non-contractual obligations arising out of or in relation to this Agreement are governed by English law.

### 11.2 Jurisdiction

11.2.1 The English courts shall have exclusive jurisdiction in relation to all disputes arising out of or in connection with this Agreement (including claims for set-off and counterclaims), including, without limitation, disputes arising out of or in connection with: (i) the creation, validity, effect, interpretation, performance or non-performance of, or the legal relationships established by, this Agreement; and (ii) any non-contractual obligations arising out of or in connection with this Agreement. For such purposes each party irrevocably submits to the jurisdiction of the English courts and waives any objection to the exercise of such jurisdiction.

11.2.2 The Borrower agrees that a judgment or order of any court referred to in this Clause 11.2 is conclusive and binding and may be enforced against it in the courts of any other jurisdiction.

### 11.3 Third parties

The terms of this Agreement may be enforced only by a party to it and the operation of the Contracts (Rights of Third Parties) Act 1999 is excluded.

### 11.3 Notice to PRA etc.

No modification to this Agreement shall become effective unless the Borrower shall have given such period of notice (if any) as is required by the PRA and received no objection within that period from, the PRA.

### 11.4 Counterparts

This Agreement may be executed in any number of counterparts, and by each party on separate counterparts. Each counterpart is an original, but all counterparts shall together constitute one and the same instrument. Delivery of a counterpart of this Agreement by e-mail attachment or telecopy shall be an effective mode of delivery.

**IN WITNESS** whereof the parties hereto have caused this Agreement to be duly executed on the date first written above.

SIGNED for and on behalf of

**PGH CAPITAL LIMITED**

By its duly authorised attorney:

SIGNED for and on behalf of

**PHOENIX LIFE HOLDINGS LIMITED**

By:

# INFORMATION ON THE GROUP

## Business Overview

The Group is a closed life assurance fund consolidator that specialises in the management and acquisition of closed life and pension funds and operates primarily in the UK. As at 31 December 2013, the Group had total assets under management of £68.6 billion, over 5 million policyholders and MCEV of £2,378 million. Measured by total assets, the Group is the UK's largest specialist consolidator of closed life assurance funds. The Group does not write any new policies (other than increments to existing policies and annuities for current policyholders when their policies mature) and is therefore focused on the efficient "run off" of the Group's policies, seeking to maximise economies of scale and generating capital efficiencies through internal fund mergers and other operational improvements.

The Group has four operating Life Companies which hold policyholder assets, referred to herein as the "**Life Companies**":

- PLL;
- Phoenix Life Assurance Limited (formerly Pearl Assurance Limited) ("**Phoenix Life Assurance**");
- National Provident Life Limited ("**National Provident Life**"); and
- Scottish Mutual International Limited ("**Scottish Mutual International**").

Opal Re, a direct subsidiary of the Guarantor, is a Bermudan reassurance company that reinsures risk for Phoenix Life Assurance Limited.

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 Life Companies (or manage the provision of such services through outsourcing arrangements), including policy administration, information technology, finance and facility management services.

On 25 March 2014, as further described below, 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 on Completion of the Divestment. Completion of the Divestment occurred on 1 July 2014. A payment of £5.5 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. Ignis Asset Management was the Group's asset management business, providing asset management and asset and liability management services to the Life Companies as well as to a third party client base of retail, wholesale and institutional investors in the UK and overseas. Ignis Asset Management had £65.9 billion of assets under management, oversight and advice as at 31 December 2013, including £50.9 billion of assets of the Life Companies and Holding Companies and £15 billion of third party assets.

## History

Phoenix Group Holdings (defined above as the "**Guarantor**"), previously named Liberty International Acquisition Company and then Liberty Acquisition Holdings (International) Company and then Pearl Group, is a company incorporated on 2 January 2008 under the laws of the Cayman Islands as an exempted company with limited liability, under registration number 202172. The Guarantor was 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. Berggruen Acquisition Holdings II Ltd. of 9-11 Grosvenor Gardens, London SW1W 0BD, United Kingdom, and Marlin

Equities IV, LLC of 555 Theodore Fremd Avenue, Suite B-302, Rye, New York 10058, United States, do not have any functions in the Group other than being Shareholders or former Shareholders.

Units of the Guarantor, comprising both Ordinary Shares and Public Warrants, were initially admitted for trading on Euronext Amsterdam on 6 February 2008. However, the Ordinary 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 2 September 2009, the Guarantor acquired the entire issued share capital of (i) LCA and LCB, who were established at the time of the acquisition of Phoenix Life Assurance (then called Pearl Assurance Limited), London Life Limited ("**London Life**"), National Provident Life and NPI Limited ("**NPI**") (collectively, the "**Original Pearl Life Companies**") and their respective affiliates by, amongst others, TDR Capital Nominees Limited and its various related entities ("**TDR Capital**") and certain principals of Sun Capital Partners ("**Sun Capital**"), (ii) TC1 and TC2, which were established at the time of the acquisition of the Resolution Group by the Original Pearl Business and (iii) Opal Re (the "**Restructuring**"). LCA, LCB, TC1, TC2 and Opal Re, together, are defined as the "**Acquired OPB Companies**". The Acquired OPB Companies, together with their respective subsidiaries, are defined as the "**Original Pearl Business**".

The Original Pearl Business was established in April 2005 in connection with the £1.1 billion acquisition from HHG plc of the Original Pearl Life Companies and their affiliates by, amongst others, TDR Capital and Sun Capital. In May 2008, the Original Pearl Business acquired the Resolution Group for £5 billion and simultaneously sold on certain assets and companies held by Resolution (the "**On-Sold Resolution Assets**") to The Royal London Mutual Insurance Society Limited ("**Royal London**") for £1.3 billion.

The Ordinary Shares of the Guarantor were admitted to the Official List of the FCA and to trading on the London Stock Exchange on 17 November 2009. The Guarantor achieved a Premium Listing on the London Stock Exchange and admitted its Public Warrants to the Official List of the FCA and to trading to the Market on 5 July 2010. The Group achieved inclusion into the FTSE 250 index on 20 September 2010. The Guarantor's Ordinary Shares and Public Warrants were delisted from Euronext Amsterdam on 17 November 2010.

On 30 January 2013, the Guarantor announced an equity issuance raising gross proceeds of £250 million. This facilitated, together with internal resources, early repayment of £450 million of the Impala Facility. The maturity date of the principal amount of the Impala Facility was extended to a final maturity of 31 December 2017 (subject to extension to 30 June 2019 at the option of the Impala Borrowers).

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 on Completion of the Divestment. Completion of the Divestment occurred on 1 July 2014. A payment of £5.5 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. The Guarantor and Standard Life Investments have also reached agreement on a long-term strategic asset management alliance, as further described below. The proceeds of the Divestment were used to prepay £250 million of the Impala Facility.

On 7 July 2014 the Issuer, as the Group's new financing vehicle, issued the Senior Bonds. The net proceeds from the issue of £296 million were used to prepay the Impala Facility.

On 23 July 2014 the Issuer entered into the Facilities Agreement which, along with a £206 million debt prepayment from internal resources, was used to refinance the entirety of the Pearl Facility, Impala Facility and the Royal London PIK Notes and PIK Facility. On 3 September 2014, the Public Warrants expired and were delisted. On the same date the Royal London Warrants also expired. There exist 5,000,000 outstanding redeemable Lender Warrants in the Guarantor.

## Strengths and Strategy of the Group

### Strengths

The Group believes that the Group's key strengths are as follows:

(a) *As the Group's funds are closed to new business, the Group has high visibility of its cash flows 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 cash flows supporting distributions to the Guarantor's shareholders and payment of outstanding debt obligations. The Group believes that the Group's expected long-term cash flows provide strong cover for interest payments. As closed life funds have no new business function, the Group does not incur the costs of running sales and marketing or customer acquisition divisions and does not need to allocate 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. In addition, the Group, being a closed life fund business, is to a large extent not subject to operational risks relating to the mis-selling and administration of new policies.

The Group's cash flows 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 Life Companies' policies run-off, excess capital supporting these liabilities can be released from the 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. During 2011, £810 million of cash was distributed from the operating companies to the Holding Companies and £690 million and £817 million of cash was distributed from the operating companies to the Holding Companies in 2012 and 2013 respectively.

(b) *The Group is the largest specialist closed life fund consolidator in the UK, 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 total assets under management of the Group of £68.6 billion and over 5 million policyholders as at 31 December 2013, the Group is the largest UK specialist closed life fund consolidator. The Group believes that this scale, together with its track record and expertise in creating value through integration and financial management, including through realising synergies from previous acquisitions and its focus on improving outcomes for policyholders of closed life funds, positions the Group as a leading consolidator of closed life funds in the future and a market leader in UK closed life fund run-off, resulting in a significant value creation opportunity.

The Group believes its 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 services 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.

(c) *There is significant opportunity to grow embedded value and accelerate cash flows 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 'The Phoenix Way': reduces risk, complexity and cost; improves investment performance; enhances customer service through efficient cooperation with the Group's outsourced partners; increases MCEV; 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 to reduce operational risk (and associated capital) of actuarial modelling, improve the quality and frequency of capital monitoring and improve cost efficiency by 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.

As a result of management actions taken in 2011 and 2012, the Group generated an incremental £332 million of MCEV and accelerated £568 million of cash flows from the operating companies to the Holding Companies. As a result of management actions taken in 2013, the Group generated an incremental £170 million of MCEV and accelerated £332 million of cash flows from the operating companies to the Holding Companies. These actions included the £5 billion annuity transfer to Guardian Assurance Limited, the release of legacy provisions and asset/liability matching activity.

The Group believes that there are opportunities to further increase both embedded value and cash flows to the Holding Companies through additional management actions. Further actions that can create value include the reduction of operational risk and the de-risking of investment strategy. The Group believes that value should be capable of being created through such financial management. The Guarantor continues to target an annual average target of £100 million of enhancements to MCEV through management actions over the period 2014 to 2016, representing an aggregate of £300 million in such three year period.

The Group's asset and liability management capability helps to protect and enhance policyholder and Shareholder returns.

The Group aims to manage its assets and liabilities to ensure a prudent approach to risk. The asset and liability management capability of the Group provides the Group with 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 cash flows 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

The Group's mission is to improve returns for its policyholders and customers and deliver value for Shareholders. The Group intends to achieve this by realising its vision of being the saver-friendly, "industry solution" for the safe, innovative and profitable management of closed life funds.

The Group's areas of strategic focus are:

#### *Manage capital*

Risk management is a key component of the Group's strategic agenda. 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. This includes ensuring there are robust capital policies within the Life Companies.

The Group is working towards a Solvency II capital position that is aligned with the PLHL ICA surplus; however, this is subject to, amongst other things, regulatory approvals and should not be seen as representing the views of the PRA. Simplifying the Group's capital structure brings greater flexibility and is a fundamental enabler of the strategic growth ambitions of the Group.

***Drive value***

The Group drives value in many ways. There are a number of management actions undertaken by the Group such as fund mergers and de-risking which can accelerate receipt of cash or increase the Group's MCEV.

Management of costs is also an important aspect of the Group's value creation. Part of 'The Phoenix Way' involves improving the efficiency of operational management through the standardisation and streamlining of key processes across the Group which will in turn reduce costs, improve performance and maximise value.

***Improve customer outcomes***

The Group has three key areas of focus in relation to our customers:

- Value – the Group aims to optimise customer outcomes;
- Service – customers want to be treated fairly, with empathy and respect in a timely fashion; and
- Security – customers expect their investment to be secure in a well managed company.

***Acquisition strategy***

The Group believes that the UK closed life fund consolidation opportunity is supported by existing and anticipated market dynamics, which are expected to generate a supply of potentially attractive acquisition targets. These dynamics include the impact of a changing regulatory framework for financial services companies including the Solvency II and Basel 3 regulations. In addition, the Group believes that the opportunity is supported by ongoing capital pressure within the sector, the trend of recycling and refocusing capital from mature to growth markets, 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 products to alternative structures, the cost challenge posed by a fragmented sector and the run-off of closed life funds and the exit of international participants.

The Group believes that the market dynamics driving the market opportunity will impact life fund operators in different ways. The Group believes that the Group is well placed to find solutions for a range of sellers of life insurance businesses due to the Group's flexible approach to acquisitions, in particular its flexibility to acquire either life companies, funds or portfolios of business, and the Group's appetite for all product types across the with-profit, non-profit and unit linked spectrum.

The Group assesses potential acquisitions in light of the financial condition of the Group, the Group's strategy of achieving an investment grade credit rating and obtaining regulatory approval for acquisitions. The level of the Group's gearing is 35 per cent. (pro forma as at 30 June 2014) which provides the Group with greater financial flexibility in relation to any potential acquisition opportunities.

***Financing strategy***

In managing the Group's capital, the Group seeks to optimise the level of debt on its balance sheet. The Group's closed life fund business model allows it to operate with higher leverage than life companies that are still writing new business, as the Group does not need to fund upfront capital requirements and new business acquisition expenses.

As part of its financing strategy, the Group has simplified its financing arrangements, including the comprehensive refinancing of its senior debt structure in July 2014 to create a new £900 million single debt facility.

### *Engage people*

Building its reputation as an employer of choice, the Group specifically targets, recruits and develops top quality people. The Group invests in its people whose talent, enthusiasm and support makes its strategy and objectives achievable.

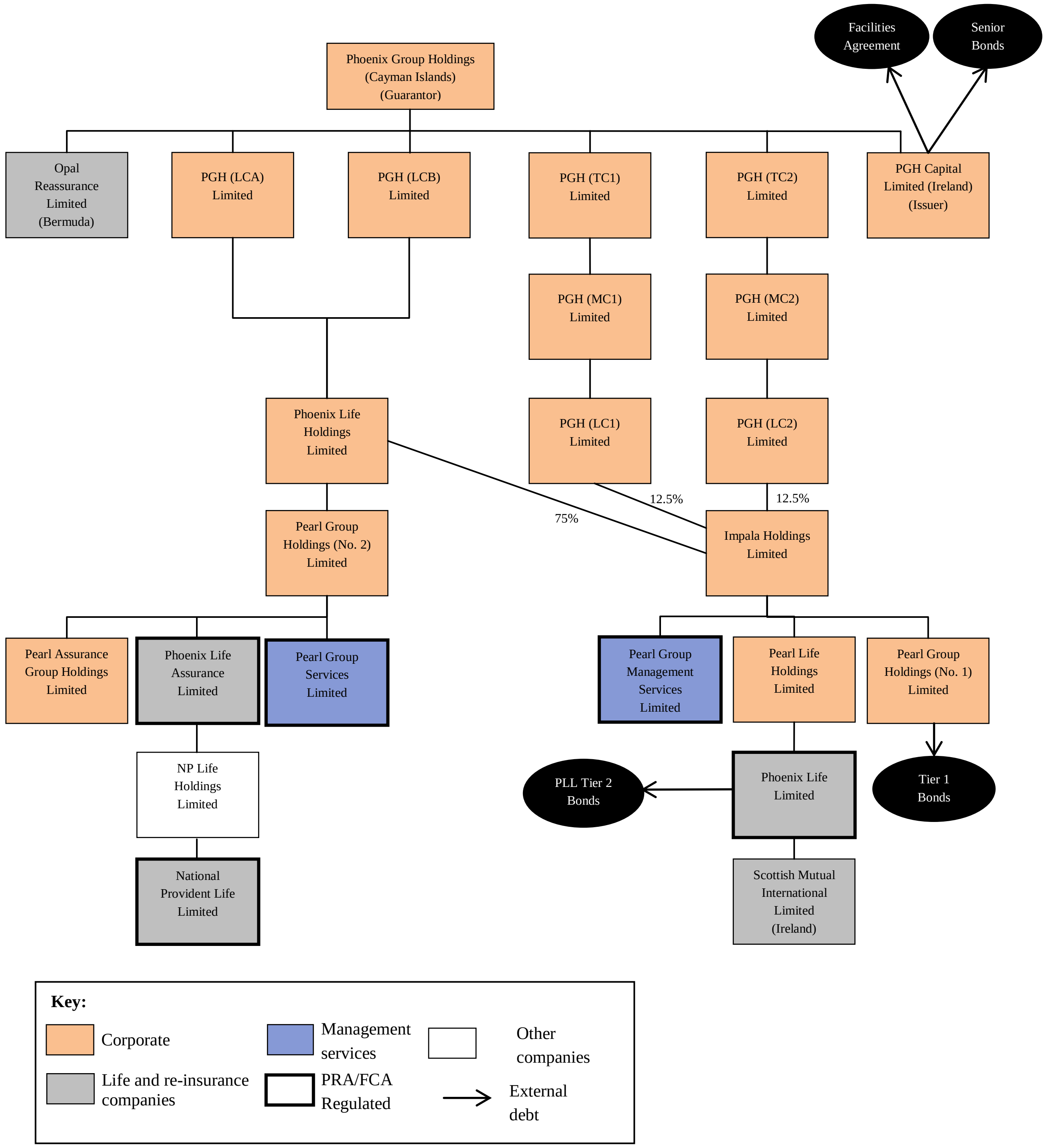
## Structure of the Group

The Group operates one business segment: life assurance business (including its management services operations), which is referred to as Phoenix Life. The Group's UK-based Group functions provide support and co-ordination for the delivery of the Group's strategic initiatives.

The holding company structure between the Guarantor and the 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. The Group may re-organise certain of these holding companies in 2015 but does not expect any such restructuring to be material to Noteholders.

Phoenix Life Holdings Limited is the ultimate insurance parent undertaking within the EEA for group capital purposes. The IGD calculation and the PLHL ICA are therefore prepared at this level.

The following chart gives an overview of the legal structure of the Group and its principal companies as at the date of this Prospectus.




Notes:

(1) Shareholdings are 100 per cent. unless otherwise indicated.

(2) Pearl Group Holdings (No. 1) Limited and PLL are the issuers of the Tier 1 Bonds and the PLL Tier 2 Bonds, respectively. For further information, see "*General Information—Material Contracts of the Guarantor—Tier 1 Bonds" and "*General Information—Material Contracts of the Guarantor—PLL Tier 2 Bonds*".

Phoenix Life is responsible for the financial and operational management of the closed life assurance fund business of the Group with the support of the management service companies and outsourced service providers.

## Insurance business

### *Life companies*

The Group's four operating Life Companies are regulated entities that hold the Group's policyholder assets. Three of the four Life Companies are regulated by the FCA and PRA and one is regulated by the Central Bank of Ireland. Over time, the Group has reduced the number of its individual life companies through fund mergers to optimise capital allocation and economies of scale. The proposed insurance business transfer of all of the business of National Provident Life to Phoenix Life Assurance is due to take place in April 2015, subject to final approval by the High Court.

Although the 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 Life Company. Writing annuities offers the Group a further opportunity to increase its embedded value through profit margins and incremental investment returns, while also helping to better manage the liquidity position of the Group's individual Life Companies. See also the risk factor entitled "*—Various new reforms to the legislation and regulation relating to the UK life insurance industry are being implemented that could adversely affect the Group*" for further information.

## Reinsurance

*Overview*

The 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*

Phoenix Life Assurance 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 National Provident Life and PLL. National Provident Life reinsures a significant portion of its unit linked business to PLL.

The various life funds within PLL themselves hold a significant amount of intra-fund arrangements, mostly to achieve financial and operational synergies.

*Opal Re*

Phoenix Life Assurance Limited has a reassurance arrangement with Opal Re, which covers a substantial block of in-payment annuity business. Opal Re is a Bermudan reinsurance company that reinsures risks solely for Phoenix Life Assurance and does not have any third party clients. As at 31 December 2013, Phoenix Life Assurance had reinsured a total of approximately £1.6 billion of its annuity liabilities with Opal Re.

Opal Re is governed under Bermudan regulations which are less onerous in certain respects than the UK Pillar 1 reserving regulations. The UK Pillar 2 assessments for Phoenix Life Assurance Limited take full account of the underlying resources and risks within Opal Re and hold capital for any residual exposures.

*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 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. If each Life Company separately provided these services and related infrastructure, this would involve significant additional costs and create impediments for the Life Company in managing the efficient run-off of its policies. Much of this incremental cost would likely be passed on as a cost to policyholders. In addition to these cost challenges, each Life Company is required to hold sufficient capital for its operational risks.

To allow the Life Companies to benefit from economies of scale, efficient outsource partnerships and an innovative integrated technology infrastructure, Phoenix Life's two UK management service companies, PGS and PGMS, provide, or manage the provision of, policyholder services for the 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 Life Companies benefit from increased price certainty and a transfer of some operational risks to the management service companies.

As 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.

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 Life Companies continue to retain ultimate responsibility to their policyholders and aim to achieve improvement in the quality of services delivered to policyholders.

The Group believes that consolidating policyholder services within Phoenix Life's two management service companies increases certainty for policyholders. This also enables the 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, PGMS Ireland, which provides administration services to Scottish Mutual International under a management services agreement which is structured in a similar manner to the management services agreements with PGS and PGMS.

## Outsourcing relationships

A key role for PGS, PGMS and PGMS Ireland is the management of relationships with the outsourced service providers on behalf of the Life Companies. The most significant outsourcing relationship for asset management services is that with Ignis Asset Management, following the Completion of the Divestment. In addition, the outsourced service providers providing administration services include Capita Life & Pensions Regulated Services Limited, Diligenta Limited (a subsidiary of Tata Consultancy Services), HCL Insurance BPO Services Limited, HSBC and Percana International Managed Services Limited.

As Phoenix Life's 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 its policy run-off profile. Any costs that do not therefore decline in line with Phoenix Life's overall declining policy book create potential operating profit challenges. The use of outsourced service providers enables Phoenix Life 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.

Phoenix Life'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, information technology services, asset management and fund administration services.

## 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.

## Substantial Shareholdings

Information provided to the Guarantor pursuant to the FCA's Disclosure and Transparency Rules regarding its substantial shareholders is published on a Regulatory Information Service and on the Guarantor's website. As at the date of this Prospectus, the Guarantor had been notified of the following significant holdings of voting rights in its Ordinary Shares.

| Name | Number of voting rights in Ordinary Shares as at 31 December 2014[(1)] | Percentage of Ordinary Shares in issue as at 31 December 2014 |
|---|---:|---:|
| Henderson Global Investors | 11,427,356 | 5.08 |
| Artemis Investment Management LLP | 11,347,387 | 5.04 |
| Ameriprise Financial, Inc. | 11,277,894 | 5.01 |
| Nicholas Berggruen Charitable Trust | 8,906,712 | 3.96 |
| FIL Limited | 8,756,186 | 3.89 |

Note:

(1) There exist 5,000,000 outstanding redeemable Lender Warrants in the Guarantor. Each Lender Warrant is exercisable into 1.027873 Ordinary Shares of the Guarantor at a warrant price of £14.59 per share. If they are exercised, the Guarantor will be required to issue up to 5,139,365 additional Ordinary Shares.

Insofar as is known to the Guarantor, the Guarantor is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

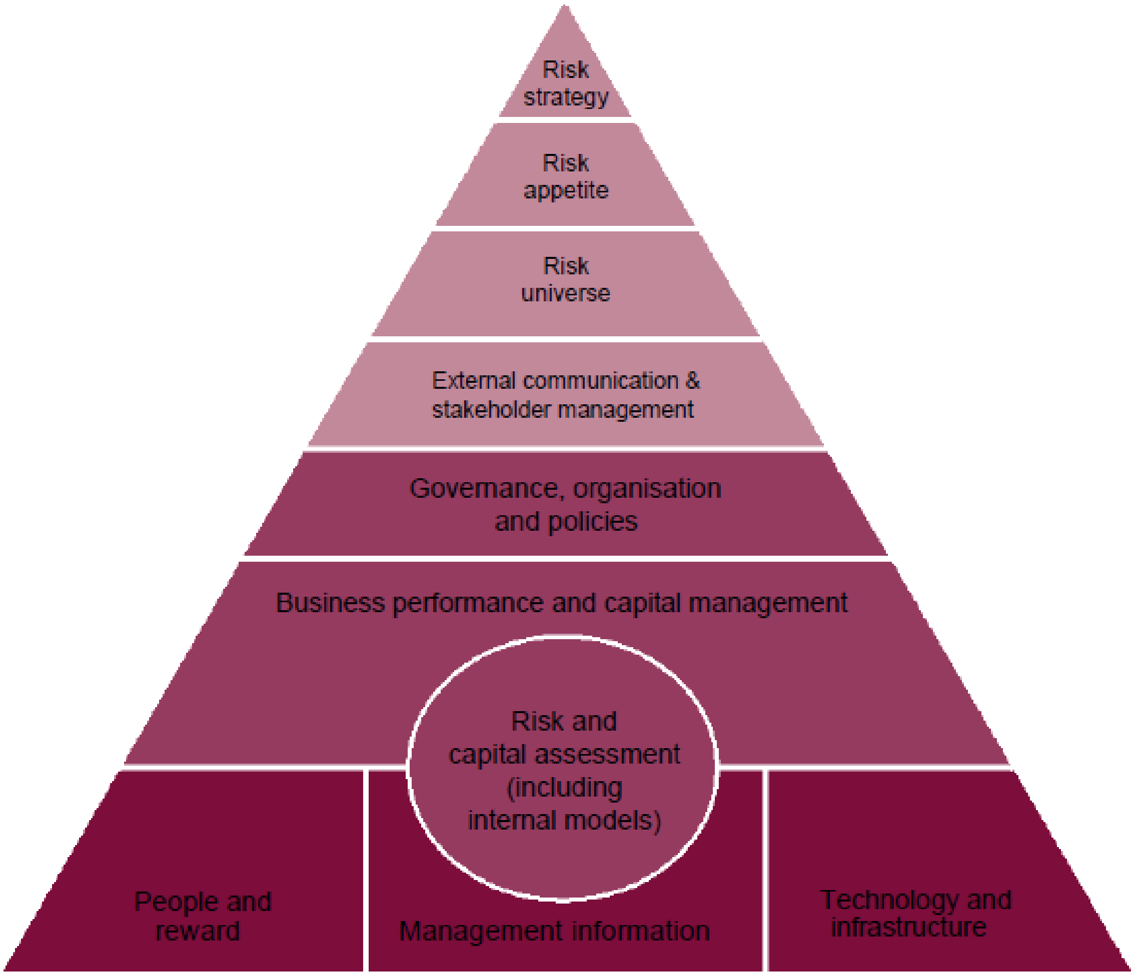
None of the major Shareholders referred to above has different voting rights from other Shareholders.

## 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 (as defined in "*Management of the Guarantor – Directors of the Guarantor*" below) 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. See the "*Risk Factors*" section of this Prospectus for a discussion of certain risks relating to the Group.

### The Group's Risk Management Framework

The Group operates a Risk Management Framework ("**RMF**") which seeks to establish a coherent and interactive set of arrangements and processes to support the effective management of risk throughout the Group. The components of the framework are described below. The outputs of the RMF provide assurance that risks are being appropriately identified and managed and that an independent assessment of management's approach to risk management is being performed.




During the course of 2013 and 2014, the Group continued to strengthen the components of the RMF to ensure that they are aligned with the requirements of Solvency II and external best practice.

### Risk strategy

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 also sets out how overall risk management within the Group is proportionate to the nature, scale and complexity of the risks faced by the business.

### Risk appetite

The Group's risk appetite framework consists of a set of statements and targets that articulate the level of risk the Group is willing to accept, in pursuit of shareholder value and achievement of the Group's strategic objectives. The statements encapsulate policyholder security, earnings volatility, liquidity and the internal control environment as follows:

- Capital – The Group and each Life Company will hold sufficient capital to meet regulatory requirements in a number of asset and liability stress scenarios.
- Cash flow – 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.
- Embedded value – The Group will take action to protect embedded value.
- Regulation – The Group and each 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.

The risk appetite framework supports the Group in operating within the boundaries of these statements by seeking to limit the volatility of key parameters, defined with respect to the above statements, under a range of adverse scenarios agreed with the Board. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits and assessment against the appetite targets is undertaken through scenario testing. Breaches of appetite are corrected through management actions where appropriate.

### Risk universe

A key element of effective risk management is to ensure that the business has a complete and robust understanding of the risks it faces. Within the Group, these are set out, categorised and defined in the risk universe.

These risks are monitored and reported across the organisation to ensure that they are adequately managed.

### 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 it is managing its risks. Significant effort is made to ensure that the Group's stakeholders have appropriate, timely and accurate information to support them in forming views of the Group.

### Governance, organisation and policies

Overall responsibility for approving, establishing and maintaining 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 Group Board to the Board of PLHL and 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 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 ensuring the risks associated with the business's activities are identified, assessed, controlled, monitored and reported.
- **Second line**: risk oversight is provided by the Group Risk function and business unit risk and compliance functions and the Board Risk Committee, which is responsible for the oversight of risk across the Group. The Board Risk Committee comprises four Non-Executive Directors, three of whom are independent. It is supported by the Chief Risk Officer.
- **Third line**: independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by Group Internal Audit, under the oversight of the Audit Committee.

**Risk organisation**

The 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 financial and operational risk, risk governance, FCA and PRA relationship management and regulatory risk. Risk review functions across the Group manage the RMF in line with the Group's established standards. The risk functions ensure that business unit risk committees are provided with meaningful risk reports and that there is appropriate information to assess and aggregate risks.

**Risk policies**

The Group policy framework comprises a set of policies that support the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to the Group's business. The policy set contains the minimum control standards that each business unit must adhere to and report compliance through the operation of local processes/procedures. 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 with the policy throughout the Group.

**Business performance and capital management**

Business unit plans are assessed to ensure that they do not breach any of the Board's risk appetite statements over the planning horizon. Business performance is routinely monitored at a business unit executive level with consolidated reporting against the annual operating plan approved by the Board and reviewed by the Executive Committee.

The impact of any proposed changes to the Group's operating plan and ongoing compliance with the Group's risk appetite statements are reviewed on a quarterly basis by the Board Risk Committee.

The Group's business units operate capital management processes that meet the Group's Capital Management Policy. Under these processes, capital is allocated across risks where capital is held as a mitigant and, in turn, to individual risk owners who hold risk capital budgets. The amount of risk capital required is reviewed regularly to ensure the risk remains within budget. Any increases in capital allocation required are referred to the relevant business unit for approval to assess whether the increased capital allocation requested is within appetite for that particular risk type or whether further risk mitigation is required.

### Risk and capital assessment

The Group operates a standardised assessment framework in accordance with INSPRU for the identification and assessment of the different types of risk it may be exposed to and how much capital should be held in relation to those exposures. This framework is applicable across the Group and 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.

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 to support the assessment of risk and analysis of their financial impact.

A Group level risk assessment process determines the most significant risks to the Group and the options available for their management.

### Management information

Overall monitoring and reporting against the risk universe is undertaken through business unit management committees through to the relevant business unit executive committee and reported to the Executive Committee, PLHL Board and Group Board via regular risk reporting.

The Board Risk Committee receives a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the overall position against risk appetite limits. The Board Risk Committee is 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 operation of the RMF.

### Technology and infrastructure

The Group employs systems to support the assessment and reporting of the risks it faces as a business and to enable management to document its key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

## Subsidiaries and Investments

The Guarantor is the principal operating and holding company of the Group. As at the date of this Prospectus, the principal subsidiaries and subsidiary undertakings of the Guarantor are as follows:

## Wholly-owned subsidiaries

| Name | Registered office | Class of shares | Proportion of share capital held by the Group | Nature of business |
|---|---|---|---|---|
| Impala Holdings Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | 'A' ordinary shares of £1, 'B' ordinary shares of £1, 'C' ordinary shares of £1 and 'D' Ordinary shares of £1 | 100 per cent. | Holding company |
| National Provident Life Limited .......... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Insurance company |
| NP Life Holdings Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | 'A' ordinary shares of £1 and 'B' ordinary shares of £1 | 100 per cent. | Holding company |
| Opal Reassurance Limited.................. | Clarendon House Church Street Hamilton Bermuda | 'A' ordinary shares of £1 and B' ordinary shares of £1 and preference shares of £1 | 100 per cent. | Reinsurance company |
| Pearl Group Holdings (No. 1) Limited.................. | Juxon House 100 St Paul's Churchyard London EC4M 8BU United Kingdom | Ordinary shares of £0.05 | 100 per cent. | Finance company |
| Pearl Group Holdings (No. 2) Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Holding company |
| Pearl Group Management Services Limited ... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Service company |
| Pearl Group Services Limited ... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Service company |
| Pearl Life Holdings Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Holding company |
| PGH (LC1) Limited ... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Finance company |
| PGH (LC2) Limited ... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 and preference shares of £1 | 100 per cent. | Finance company |

| Name | Registered office | Class of shares | Proportion of share capital held by the Group | Nature of business |
|---|---|---|---|---|
| PGH (LCA) Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Finance company |
| PGH (LCB) Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Finance company |
| PGH (MC1) Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 and preference shares of £1 | 100 per cent. | Finance company |
| PGH (MC2) Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 and preference shares of £1 | 100 per cent. | Finance company |
| PGH (TC1) Limited ... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1, Ordinary A shares of £1 and preference shares of £1 | 100 per cent. | Holding company |
| PGH (TC2) Limited ... | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1, Ordinary A shares of £1 and preference shares of £1 | 100 per cent. | Holding company |
| Phoenix Life Assurance Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | 'A' Ordinary shares of £0.05 and 'B' ordinary shares of £1 | 100 per cent. | Insurance company |
| Phoenix Life Holdings Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Holding company |
| Phoenix Life Limited.................. | 1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom | Ordinary shares of £1 | 100 per cent. | Insurance company |
| Scottish Mutual International Limited.................. | International Financial Services Centre 25/28 North Wall Quay Dublin 1 Ireland | Ordinary shares of €1.25 Ordinary shares of £1 | 100 per cent. | Insurance company |
| PGH Capital Limited.... | Arthur Cox Building Earlsfort Building Dublin 2 | Ordinary shares of £1 | 100 per cent | Finance Company |

### Subsidiary undertaking and investment

| Name | Registered office | Class of shares | Partnership Interest | Proportion of share capital held | Nature of business |
|---|---|---|---|---|---|
| UK Commercial Property Trust Limited...................... | Trafalgar Court Les Banques St. Peter Port Guernsey | Ordinary Shares of £0.25 | Not applicable | 53.19 per cent. | Commercial property company |
| Castle Hill Asset Management LLC ..... | 2711 Centerville Road Suite 400 Wilmington Delaware 19808 United States | Not applicable | 40 per cent. | Not applicable | Asset Management |

## Properties

In the UK, the Group operates from leased office premises in one site in London and one site in Glasgow and from its site in Wythall which is owned by the Group. In addition, the Group leases office premises in Dublin, Ireland and has a licence for a property in Jersey.

The Group permits parts of its premises in Glasgow and Wythall to be used by its outsourced service providers to enable them to provide services to the Group. The ongoing core site for the Life Companies is the Wythall site.

Opal Re operates from offices in Hamilton, Bermuda.

# DESCRIPTION OF THE ISSUER

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 "**Companies Acts of Ireland**"). The registered office of the Issuer is Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland and its telephone number is +353 1402 9400.

## Share Capital and Ownership

The authorised share capital of the Issuer is £1,000,000 divided into 1,000,000 ordinary shares of par value £1.00 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held by the Guarantor.

The Issuer is a wholly-owned subsidiary of the Guarantor.

Pursuant to the Articles of Association of the Issuer, the board is responsible for the management of the Issuer. Under Irish law, for as long as the Issuer is solvent the board is required to act in the best interests of the Issuer.

The relationship between the Issuer and the Guarantor, the sole shareholder of the Issuer, is governed by the memorandum and articles of association of the Issuer and Irish law, including the Companies Acts of Ireland and regulations made thereunder.

## Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its memorandum of association (as currently in effect) and permit the Issuer, 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 Notes) and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer was established to raise capital by the issue of debt securities and enter into the Facilities Agreement and to use amounts equal to the proceeds of each such issuance or drawdown to advance loans to Group companies.

Since its incorporation, the Issuer has issued, on 7 July 2014, the Senior Bonds. In addition, on 23 July 2014, the Issuer entered into the Facilities Agreement. As at the date of this Prospectus, approximately £840 million was drawn down under the Facilities Agreement. The Issuer has no employees and has not carried out any business operations other than the financing activities referred to herein.

### Directors and Company Secretary

The Issuer's Articles of Association provide that the board of directors of the Issuer will consist of at least two Directors.

The directors of the Issuer and their business addresses are as follows:

| | |
|---|---|
| Malachy Smith | Regus House<br>Harcourt Road<br>Dublin 2<br>Ireland |
| Ciaran McGettrick | Regus House<br>Harcourt Road<br>Dublin 2 |

| | |
|---|---|
| | Ireland |
| Rashmin Shah | Juxon House<br>100 St Paul's Churchyard<br>London EC4M 8BU<br>United Kingdom |

The Company Secretary is Bradwell Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

Save for the issue of the Senior Bonds, the entry into and drawdown under the Facilities Agreement and any related arrangements and the proposed issue of the Notes, the Issuer has no other borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

As at the date of this Prospectus, there are no existing or potential conflicts of interest between any of the duties owed by the Directors of the Issuer to the Issuer and their private interests and other duties.

**Financial Statements**

No financial statements of the Issuer have been prepared as of the date of this Prospectus. The financial year of the Issuer ends on 31 December in each year. The Issuer's first audited financial statements will be for the period from its incorporation and ending on 31 December 2014. The Issuer will not prepare interim financial statements.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer 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 the Issuer 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 the Issuer.

## MANAGEMENT OF THE GUARANTOR

### Directors of the Guarantor

The Directors on the board of directors of the Guarantor (the "**Board**") are as follows as at the date of this Prospectus:

| Name | Position |
|---|---|
| Sir Howard Davies .................................. | Chairman, Non-Executive Director and Nomination Committee Chairman |
| Clive Bannister ........................................ | Group Chief Executive Officer |
| James McConville .................................. | Group Finance Director |
| Ian Cormack ........................................... | Senior Independent Non-Executive Director and Remuneration Committee Chairman |
| René-Pierre Azria ................................... | Non-Executive Director |
| Alastair Barbour ..................................... | Independent Non-Executive Director and Audit Committee Chairman |
| Tom Cross Brown ................................... | Independent Non-Executive Director |
| Isabel Hudson ......................................... | Independent Non-Executive Director |
| Kory Sorenson ........................................ | Independent Non-Executive Director |
| David Woods .......................................... | Independent Non-Executive Director and Risk Committee Chairman |

| | |
|---|---|
| **Company Secretary** | Gerald Watson |
| **Registered office of the Guarantor** | c/o Maples Corporate Services Limited<br>PO Box 309<br>Ugland House<br>Grand Cayman<br>KY1-1104<br>Cayman Islands |
| **Principal Place of Business of the Guarantor** | 1st Floor, 32 Commercial Street<br>St. Helier<br>Jersey JE2 3RU<br>Channel Islands |

### Biographies of the Directors of the Guarantor

**Sir Howard Davies**
Chairman

Sir Howard Davies was appointed Chairman of the Board of Directors of the Guarantor on 1 October 2012. He is the Chairman of the British Government's Airport Commission. He also is a Professor of Practice at the French School of Political Science in Paris (Sciences Po). He was previously the Director of the London School of Economics and Political Science from 2003 until May 2011. Prior to this appointment he was

Chairman of the UK Financial Services Authority from 1997 to 2003. From 1995 to 1997 he was Deputy Governor of the Bank of England, after three years as the Director General of the Confederation of British Industry. Earlier in his career he worked in the Foreign and Commonwealth Office, the Treasury, McKinsey and Co. and as Controller of the Audit Commission. He has been an Independent Director of Morgan Stanley Inc. since 2004, and is Chairman of the risk committee. He is also Chairman of the risk committee at Prudential PLC, whose board he joined in 2010. He is a Director of the Royal National Theatre, whose board he joined in 2011. He is a member of the Regulatory and Compliance Advisory Board of Millennium LLC, a New York-based hedge fund. He has also been a member of the International Advisory Council of the China Banking Regulatory Commission since 2003 and, from 2012, is Chairman of the International Advisory Council of the China Securities Regulatory Commission. He is Chairman of the Guarantor's Board Nomination Committee.

**Clive Bannister**
Group Chief Executive Officer

Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer. Prior to this, he 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. Mr Bannister was appointed to the Board of Directors of the Guarantor on 28 March 2011.

**James McConville**
Group Finance Director

James McConville was appointed to the Board of Directors of the Guarantor as Group Finance Director on 28 June 2012. During 2011/2012, Mr McConville was a non-executive director of the life businesses of Aegon UK. Between April 2010 and December 2011, he 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. In 2014 Mr McConville joined the board of Tesco Personal Finance plc. Mr McConville qualified as a chartered accountant whilst at Coopers and Lybrand.

**Ian Cormack**
Senior Independent Director

Ian Cormack was appointed to the Board of Directors of the Guarantor on 2 September 2009 and was appointed Senior Independent Director on 1 October 2013. Mr Cormack is Non-Executive Chairman of Maven Income & Growth VCT 4 plc and is Senior Independent Director of Partnership Assurance Group plc, Bloomsbury Publishing Plc and Xchanging 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. Mr Cormack served on the Board of Directors of the former Pearl Group Limited from May 2005 to September 2009. Mr Cormack is Chairman of the Guarantor's Board Remuneration Committee and a member of the Guarantor's Board Nomination Committee.

**René-Pierre Azria**
Non-Executive Director

René-Pierre Azria is Chief Executive Officer of Tegris Advisors LLC, a US private advisory firm specialising in strategic financial analysis and mergers and acquisitions. Prior to founding Tegris, Mr Azria was a worldwide partner with Rothschild & Co. Prior to joining Rothschild in 1996, Mr Azria served as Managing Director of Blackstone Indosuez and President of Financiere Indosuez Inc. in New York. Mr Azria serves as a Director of two privately-held book publishers in France and the US. Mr Azria was appointed to the Board of Directors of the Guarantor on 2 September 2009. He is a member of the Guarantor's Board Risk Committee.

**Alastair Barbour**
Independent Non-Executive Director

Alastair Barbour has had over 30 years 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, Standard Life European Private Equity Trust plc and Liontrust Asset Management plc (all London Stock Exchange listed companies). He is also a director and Audit Committee Chair 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 company listed in Bermuda. Mr Barbour was appointed to the Board of Directors of the Guarantor on 1 October 2013 and is Chairman of the Guarantor's Board Audit Committee and a member of the Guarantor's Board Risk Committee.

**Tom Cross Brown**
Independent Non-Executive Director

Tom Cross Brown was Global Chief Executive of ABN AMRO Asset Management (which managed €160 billion of assets, with offices in 30 countries around the world) from 2000 to 2003, as well as Chairman of ABN AMRO Asset Management in the UK from 1997 to 2003. Prior to this, he spent 21 years with Lazard Brothers in London, latterly as Chief Executive Officer of Lazard Brothers Asset Management. Mr Cross Brown is Non-Executive Chairman of Just Retirement Group plc and is a Non-Executive Director of Artemis Alpha Trust plc, as well as of other private companies and charities. Mr Cross Brown served on the Board of Directors of the former Pearl Group Limited from May 2005 until September 2009. He was appointed to the Board of Directors of the Guarantor on 24 September 2009. He is a member of the Guarantor's Board Nomination Committee and the Guarantor's Board Risk Committee.

**Isabel Hudson**
Independent Non-Executive Director

Isabel Hudson is a former Executive Director of Prudential Assurance Company Limited and a former Non-Executive Director of QBE Insurance. She was also Chief Financial Officer at Eureko BV and a Non-Executive at The Pensions Regulator. Ms Hudson is Non-Executive Chair of the National House Building Council. In addition during 2014, Ms Hudson joined the Boards of Standard Life PLC and BT Group plc. Ms Hudson is an ambassador to Scope, a UK charity, and has 33 years of experience in the insurance industry in the UK and mainland Europe. She was appointed to the Board of Directors of the Guarantor on 18 February 2010. She is a member of the Guarantor's Board Audit Committee and the Guarantor's Board Remuneration Committee.

**Kory Sorenson**
Independent Non-Executive Director

Kory Sorenson is currently a non-executive director of SCOR SE, the global reinsurer listed on the Euronext Paris stock exchange, its US subsidiaries: SCOR Reinsurance Company (US) and SCOR Global Life Americas Reinsurance Company, and UNIQA Insurance Group AG, a leading insurance group in Austria and Central and Eastern Europe listed on the Vienna Stock Exchange. Ms Sorenson has over twenty years financial services experience, most of which has been focused on insurance and banking. She was Managing Director, Head of Insurance Capital Markets of Barclays Capital from 2005 to 2010 and also held senior positions in the capital markets or financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. Ms Sorenson is also a director of the *Institut Pasteur*, a non-profit, private foundation created in 1887 by Louis Pasteur, focused on biomedical research, public health and teaching. Ms Sorenson was appointed to the Board of the Guarantor on 1 July 2014 and is a member of the Guarantor's Board Remuneration and Board Audit Committee.

**David Woods**
Independent Non-Executive Director

David Woods is a Fellow of the Institute of Actuaries, Non-Executive Chairman of Standard Life UK Smaller Companies Trust plc and a Non-Executive Director of Murray Income Trust plc and Barbon Insurance Group. He is also Chairman of the pension fund trustee companies responsible for the governance of all the UK pension schemes in the Steria Group and is a Director of Santander (UK) Group Pension Trustees Ltd. He was appointed to the Board of Directors of the Guarantor on 18 February 2010 and is Chairman of the Guarantor's Board Risk Committee and a member of the Guarantor's Board Audit Committee.

## Other Directorships/Partnerships of the Board of the Guarantor

In respect of each Director, details are set out below of the companies and partnerships (not including any member of the Group other than PLHL) of which such Director has been a member of the administrative, management or supervisory bodies or partner at any time in the five years before the date of this Prospectus:

| Name | Current | Previous |
|---|---|---|
| Sir Howard Davies.................. | Davieskeely Limited<br>Morgan Stanley Inc<br>Prudential PLC<br>The Royal National Theatre<br>British Government's Airport Commission<br>Regulatory and Compliance Advisory Board of Millennium LLC<br>Tate Foundation<br>International Advisory Council of the China Banking Regulatory Commission<br>International Advisory Council of the China Securities Regulatory Commission | London School of Economics & Political Science<br>LSE Lets Limited<br>Paternoster UK Limited<br>The Russell Group of Universities<br>Tate Gallery<br>The Royal Academy of Music<br>LSE Enterprise Limited<br>Velse Limited (3 September 2014)(3) |
| Clive Bannister ....................... | Dreamchasing<br>Doorfield Property Management Limited<br>Punter Southall Group Limited<br>Rougemont Management Limited<br>Unigestion Holding SA<br>Phoenix Life Holdings Limited | HSBC Insurance Holdings Limited<br>HSBC Insurance Services Holdings Limited<br>Ignis Asset Management Limited(1)<br>Ignis Investment Services Limited(1)<br>Ignis Fund Managers Limited(1)<br>Ignis Investment Management Limited<br>Marsh Brokers Limited |
| James McConville................... | Tesco Personal Finance Group Limited | Gosforth Funding plc |

| Name | Current | Previous |
| --- | --- | --- |
| | Tesco Personal Finance plc<br>Phoenix Life Holdings Limited | Gosforth Funding 2011-1 plc<br>Gosforth Holdings Limited<br>Guardian Assurance Limited<br>Guardian Linked Life Assurance Limited<br>Guardian Pensions Management Limited<br>Ignis Asset Management Limited(1)<br>Ignis Investment Services Limited(1)<br>Ignis Fund Managers Limited(1)<br>Lloyds TSB Financial Services Limited (now called Lloyds Bank Financial Services Limited)<br>Northern Rock plc (now called Virgin Money PLC)<br>Pensions Management (S.W.F.) Limited<br>Scottish Equitable Holdings Limited<br>Scottish Equitable plc<br>Scottish Widows Annuities Limited<br>Scottish Widows Bank PLC<br>Scottish Widows Financial Services Holdings<br>Scottish Widows Group Limited<br>Scottish Widows plc<br>Scottish Widows (Port Hamilton) Limited<br>Scottish Widows Property Management Limited<br>Scottish Widows Services Limited<br>Scottish Widows Unit Funds Limited<br>SW (No.1) Limited<br>SW (No.3) Limited |
| René-Pierre Azria.................... | Abrams Inc<br>La Martiniere Groupe<br>Tegris LLC | Jarden Corporation |
| Alastair Barbour...................... | RSA Insurance Group plc<br>Standard Life European Private Equity Trust plc<br>Liontrust Asset Management plc<br>CATCo Reinsurance Opportunities Fund Ltd<br>Bank of N.T. Butterfield & Son Limited<br>CATCo Reinsurance Fund Limited<br>Scottish Equitable Policyholders Trust Limited<br>Phoenix Life Holdings Limited | |
| Ian Cormack............................ | Bloomsbury Publishing Plc<br>Maven Income & Growth VCT 4 PLC<br>National Angels Limited<br>Temporis Capital LLP<br>Xchanging plc<br>Partnership Assurance Group PLC<br>Partnership Life Assurance Company Limited<br>Partnership Home Loans Limited<br>Phoenix Life Holdings Limited | African Carbon Reductions Limited (8 March 2011)(2)<br>Cormack Tansey Partners<br>Carbon Efficient Energy Limited (14 September2010)(3)<br>Carbon Reductions Limited<br>Entertaining Finance Limited (4 July 2012)(3)<br>Europe Arab Bank PLC<br>Gulf Carbon Reductions Limited (8 March 2011)(3)<br>Qatar Financial Centre Authority<br>Qatar Insurance Services LLC<br>Arria NLG Plc |

| Name | Current | Previous |
| --- | --- | --- |
| | | Aspen Insurance Holdings<br>Aspen Insurance UK Limited |
| Tom Cross Brown................... | Alpha Securities Trading Limited<br>Artemis Alpha Trust PLC<br>Artemis Investment Management LLP<br>Heathfield School<br>Financial Standards Planning Board Limited<br>Islip Consulting Limited<br>Just Retirement Group PLC<br>Just Retirement Limited<br>Just Retirement Solutions Limited<br>The Heathfield School Foundation<br>Phoenix Life Holdings Limited | Aethra Asset Management B.V.<br>Bluebay Asset Management (Services) Limited<br>Ignis Asset Management Limited<br>Ignis Fund Managers Limited<br>Ignis Investment Services Limited<br>Just Retirement Group Holdings Limited |
| Isabel Hudson ......................... | National House-Building Council<br>Standard Life PLC<br>BT Plc | Basinhall Limited (20 January 2009)(3)<br>Elders Insurance Limited<br>Fineos Corporation Limited<br>Fineos plc<br>Marine and General Mutual Life Assurance Society<br>QBE Insurance (Australia) Limited<br>QBE Insurance (International) Limited<br>QBE Insurance Group Limited<br>Synesis Administration Limited<br>(1 December 2009)(3)) |
| Kory Sorenson ........................ | SCOR SE<br>SCOR Reinsurance Company (US)<br>SCOR Global Life Americas Insurance Company<br>UNIQA Insurance Group AG<br>Institut Pasteur | |
| David Woods .......................... | Barbon Holdings Limited<br>Santander (UK) Group Pension Scheme Trustees Ltd<br>Standard Life UK Smaller Companies Trust PLC<br>Murray Income Trust plc<br>Steria (Management Plan) Trustees Limited<br>Steria (Pension Plan) Trustees Limited<br>Steria (Pooled Investments) Trustees Limited<br>Steria (Retirement Plan) Trustees Limited<br>Steria Electricity Supply Pension Trustees Limited<br>Barbon Insurance Group Limited<br>Caley Limited<br>Phoenix Life Holdings Limited | Royal Liver Assurance<br>Heriot-Watt University<br>Property & Commercial Limited<br>The Moller Centre for Continuing Education Limited |

Notes:

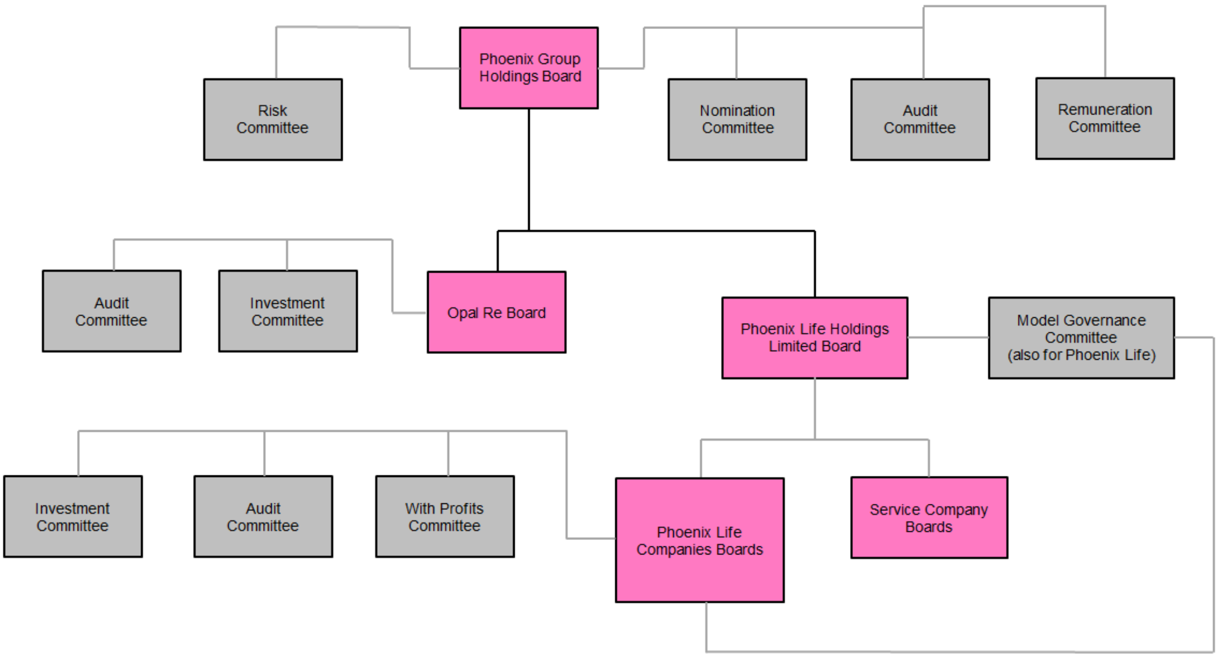
(1) The Director ceased to be a director of this company upon the Completion of the Divestment.

(2) Dissolved on this date.

(3) Dissolved via voluntary strike off on this date.

## Board and Management of the Group

The Guarantor is a member of the FTSE 250 Index, having achieved a Premium Listing on the London Stock Exchange in July 2010. The Board is committed to high standards of corporate governance and supports the UK Corporate Governance Code which sets standards of good practice for UK listed companies. The following diagram depicts the Group's current governance structure:




## The Board

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director and seven other Non-Executive Directors (the "**Non-Executive Directors**"), six of whom are independent. (For biographical details of all Directors see "*Management of the Guarantor— Biographies of the Directors of the Guarantor*"). The Board considers that the following Directors are independent as they do not have any interest or business and other relationship which could, or could be perceived to, interfere materially with their ability to act in the best interests of the Guarantor: Alastair Barbour, Ian Cormack, Tom Cross Brown, Isabel Hudson, Kory Sorenson, and David Woods. The Board has considered the criteria proposed by the UK Corporate Governance Code in assessing the independence of the Directors.

Non-Executive Directors are appointed for a term of three years (subject to annual re-election at the AGM), and any subsequent terms are considered by the Nomination Committee and the Board. All Directors are subject to a vote for re-election at the AGM and all current directors were elected or re-elected at the AGM on 30 April 2014.

All the Directors of the Guarantor are FCA/PRA Approved Persons in respect of the Guarantor's FCA/ PRA regulated subsidiaries.

The Board is responsible to the Shareholders for the overall governance and performance of the Group. The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board has a schedule of matters reserved for its consideration and approval. These matters include:

- Group strategy and business plans;

- major acquisitions, investments and capital expenditure;
- financial reporting and controls;
- dividend policy;
- capital structure;
- the constitution of Board committees;
- appointments to the Board and Board committees;
- senior executive appointments; and
- key Group policies.

Matters which are not reserved for the Board or its committees under their terms of reference, or for Shareholders in general meetings, are delegated to the Executive Management under a schedule of delegated authorities approved by the Board.

Central management and control of the Guarantor is in Jersey, where the Guarantor's head office is located.

### The Chairman, Group Chief Executive Officer and Senior Independent Non-Executive Director

There is a division of responsibility, approved by the Board, between the Chairman, Sir Howard Davies, who is responsible for the leadership and effective operation of the Board and the Group Chief Executive Officer, Clive Bannister, who is responsible to the Board for the overall management and operation of the Group. The Chairman's other significant commitments are set out in his biographical details in "*Management of the Guarantor—Biographies of the Directors of the Guarantor*".

The Senior Independent Non-Executive Director, appointed by the Board, is Ian Cormack. His role is to be available to Shareholders whose concerns are not resolved through the normal channels or when such channels are inappropriate. He is also responsible for leading the appraisal of the Chairman's performance by the Non-Executive Directors.

### Effectiveness of the Board

In accordance with the UK Corporate Governance Code, an evaluation of the performance of the Board and that of its committees and individual Directors was undertaken in October/November 2014. This was undertaken with external facilitation by Egon Zehnder.

The process involved completion by Directors of a questionnaire covering various aspects of Board and Director effectiveness, followed by individual meetings with each Director, concluding in a Board report which was discussed by the Board in November 2014. The following areas were covered:

- Board performance;
- Board structure and composition, including diversity;
- Board dynamics and relationship;
- Board processes;
- Board committees;
- Individual Director performances; and
- Director induction and training.

The output from the Board and individual Director reviews will inform the review of the Board composition and structure to be undertaken by the Board Nomination Committee in January 2015, leading to the Board's recommendations to shareholders regarding re-election of directors at the 2015 AGM.

All Directors receive a tailored induction on joining the Board and benefit from an ongoing training programme.

### Operation of the Board

The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and extraordinary Board meetings of the Guarantor and to devote appropriate preparation time ahead of each meeting. The Non-Executive Directors hold meetings with the Chairman without the Executive Directors being present.

### Board's committees

The Board has delegated specific responsibilities to four standing committees of the Board.

#### *Audit Committee*

Alastair Barbour is the Chairman of the Audit Committee. The other members are Isabel Hudson, Kory Sorenson and David Woods. The composition of the Committee is in accordance with the requirements of the UK Corporate Governance Code that the Audit Committee should consist of at least three independent Non-Executive Directors of whom at least one has recent and relevant financial experience. Alastair Barbour and Isabel Hudson both have recent and relevant financial experience.

The Audit Committee is responsible for making recommendations to the Board on such matters as the appointment of the external auditors and their terms of engagement and for reviewing the performance, objectivity and independence of the external auditors. The Audit Committee is also responsible for assessing the effectiveness of the Group's internal audit function. The Audit Committee receives and reviews the annual report and accounts and other related financial disclosures, the ultimate responsibility for these matters remaining with the Board. It monitors the overall integrity of the financial reporting by the Guarantor and its subsidiaries and reviews compliance with legal and regulatory requirements and the effectiveness of the Group's internal controls. The terms of reference of the Audit Committee state that it shall meet the external auditor at least once a year without management being present.

The Guarantor has adopted a Charter of Statutory Auditor Independence, which requires both the Guarantor and the external auditors to take measures to safeguard the objectivity and independence of the external auditors. These measures include a prohibition regarding non-audit services in respect of specific areas, such as secondments to management positions, or those which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external audit engagement partner.

#### *Nomination Committee*

Sir Howard Davies is Chairman of the Nomination Committee. The other members are Ian Cormack and Tom Cross Brown. The composition of the Nomination Committee is in accordance with the requirements of the UK Corporate Governance Code that a majority of its members should be independent Non-Executive Directors. The Nomination Committee is responsible for considering the size, composition and balance of the Board; the retirement and appointment of Directors; succession planning for the Board and senior management; and making recommendations to the Board on these matters.

#### *Remuneration Committee*

Ian Cormack is Chairman of the Remuneration Committee. The other members are Isabel Hudson and Kory Sorenson. The composition of the Remuneration Committee accords with the requirements of the UK

Corporate Governance Code that the Remuneration Committee should consist of at least three independent Non-Executive Directors.

The Remuneration Committee is responsible for making recommendations to the Board on the Guarantor's remuneration and compensation plans, policies and practices and for determining, within agreed terms of reference, specific remuneration packages for the Executive Directors. These include pension rights and executive incentive schemes to encourage superior performance.

FIT Remuneration Consultants provide advice to the Remuneration Committee and are independent of the Guarantor.

***Risk Committee***

The establishment of a Risk Committee is not a requirement of the UK Corporate Governance Code. However, the Board believes such a Committee is important to ensure the robust oversight of the management of risk within the Group. The composition of the Committee, with a majority of independent Non-Executive Directors, is in accordance with the final recommendations of the report by Sir David Walker titled 'A review of corporate governance in UK banks and other financial industry entities'.

David Woods is Chairman of the Risk Committee. The other members are René-Pierre Azria, Alastair Barbour and Tom Cross Brown.

The Risk Committee advises the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk appetite, the current financial situation of the Guarantor and the Guarantor's capacity to manage and control risks within the agreed strategy. It advises the Board on all high-level risk matters. Details of the Risk Management Framework, for which the Risk Committee has oversight, are set forth in "*Risk Management—The Group's Risk Management Framework*".

## The Executive Committee of the Group

Executive management of the Group is led by the Group Chief Executive Officer, Clive Bannister, who is supported by the Executive Management Committee ("**ExCo**").

**Clive Bannister**

Group Chief Executive Officer

- Leads the development of the Group's strategy for agreement by the Board;
- Leads and directs the Group's businesses in delivery of the Group strategy and business plan;
- Leads the Group to safeguard returns for policyholders and grow shareholder value;
- Embeds a risk-conscious Group culture which recognises policyholder obligations in terms of service and security; and
- Manages the Group's key external stakeholders.

**James McConville**

Group Finance Director

- Develops and delivers the Group's financial business plan in line with strategy;
- Ensures the Group's finances and capital are managed and controlled;
- Develops and delivers the Group's debt capital strategy and other treasury matters;

- Ensures the Group has effective processes in place to enable all reporting obligations to be met;
- Supports the Group Chief Executive Officer in managing the Group's key external stakeholders and investor relations; and
- Maximises shareholder value through clear, rigorous assessment of business opportunities.

**Andy Moss**

Chief Executive, Phoenix Life

- Leads development and delivery of the Phoenix Life business strategy, including the continued integration of life businesses;
- Leads the Phoenix Life business to optimise outcomes for customers in terms of both value and security; and
- Ensures Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.

**Fiona Clutterbuck**

Head of Strategy, Corporate Development and Communications

- Supports the Group Chief Executive Officer in the formulation of the strategy and the business planning for the Group;
- Leads implementation of the Group's strategy as regards any potential acquisitions or disposals; and
- Leads external Group Communications in liaison with the Group Finance Director and Head of Investor Relations.

**Steve Fawcett**

Group Human Resources Director

- Leads the implementation of the Group's employee strategy in order to recruit, retain, motivate and develop high quality employees;
- Provides guidance and support on all HR matters to the Group Chief Executive Officer, ExCo and the Group Board and Remuneration Committee; and
- Delivers HR services to the Group.

**Quentin Zentner**

General Counsel

- Leads provision of legal advice to the Group Board, other Group company Boards, ExCo and senior management;
- Oversees and co-ordinates maintenance of, and adherence to, appropriate corporate governance procedures across the Group; and
- Designs and implements a framework to manage legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations.

**Wayne Snow**

Chief Risk Officer

- Leads the Group's risk management function, embracing changes in best practice and regulation including Solvency II; and
- Oversees and manages the Group's relationship with the FCA and PRA.

**Simon True**

Group Chief Actuary

- Ensures capital is managed efficiently across the Group;
- Manages the Group's solvency position;
- Leads development of the Group's investment strategy; and
- Identifies and delivers opportunities to enhance shareholder value across the Group.

## Biographies

**Clive Bannister**

For Clive Bannister's biography, please see "*Section A: Directors*" above.

**James McConville**

For James McConville's biography, please see "*Section A: Directors*" above.

**Andy Moss**

Andy Moss was appointed to the role of Chief Executive of Phoenix Life on 19 May 2014 having previously been Phoenix Life Finance Director responsible for planning and target setting, statutory and regulatory reporting and financial control for all of the Life Companies. Prior to that Andy was Deputy Finance Director of the Resolution Life business having started in the Group as Head of Finance at Britannic in 2004. Before joining the Group Andy held a variety of roles across Nationwide Life Ltd, KPMG and Eagle Star Group.

**Fiona Clutterbuck**

Fiona Clutterbuck was appointed Head of Corporate Development in June 2010, and subsequently Head of Strategy, Corporate Development and Communications in March 2012. Fiona joined the Group in June 2008. Prior to working in the Group, she was Head of Financial Institutions Advisory at ABN AMRO between 2001 and 2008, where she advised on the acquisition of Pearl by Sun Capital and TDR Capital, and Pearl on the acquisition of Resolution plc. Fiona had previously worked at both HSBC Investment Bank and Hill Samuel. Fiona is a qualified Barrister.

**Steve Fawcett**

Steve Fawcett was appointed Group Human Resources Director in May 2014. Previously Steve was Deputy Group HR Director and Head of HR Strategic Change for the Group with responsibility for the delivery of HR services and major people change programmes. Prior to this Steve held a number of senior HR and consulting roles at Norwich Union (now Aviva) and is a Fellow of the Charted Institute of Personnel and Development.

**Quentin Zentner**

Quentin Zentner was appointed as General Counsel in December 2014, having previously held the role of Director, Life Legal since August 2010. Quentin was previously General Counsel at Nikko Principal Investments Ltd, a Japanese private equity company and before that was a Corporate Partner at Pinsents Curtis. Quentin is a qualified solicitor.

**Wayne Snow**

Wayne Snow was appointed Chief Risk Officer in July 2013, having previously been Financial Risk Director responsible for financial and operational risk oversight and the function's responsibilities under Solvency II. Prior to that Wayne was Head of Shareholder Value Management responsible for strategic initiatives to increase shareholder value. Before joining Phoenix in 2005, Wayne was a consultant with Tillinghast-Towers Perrin and is a Fellow of the Institute of Actuaries in the UK and the Society of Actuaries in the US.

**Simon True**

Simon joined the Phoenix Group on 1 May 2013 as Group Chief Actuary. Before joining the Group, Simon ran the M&A team within Resolution Limited, having joined in 2008, and was actively involved in its creation through to its inclusion in the FTSE 100 following the acquisitions of Friends Provident, AXA UK (Life), and Bupa Health. Prior to Resolution Limited, Simon was the Group Actuary at Resolution plc until the acquisition by Pearl Group Limited in 2008.

## Other Directorships/Partnerships of the Executive Committee

In respect of each Senior Manager, details are set out below of the companies and partnerships (not including any member of the Group) of which such Senior Manager has been a member of the administrative, management or supervisory bodies or partner at any time in the five years before the date of this Prospectus:

| Name | Current | Previous |
|---|---|---|
| Clive Bannister[(1)] | | |
| Fiona Clutterbuck | Paragon Group of Companies PLC<br>WS Atkins Plc | None |
| Steve Fawcett | PGS Nominee No.1 Limited<br>PGS Nominee No.2 Limited | None |
| James McConville[(2)] | | |
| Andy Moss | None | None |
| Wayne Snow | None | Clovermay Limited<br>Seventy-One King Henry's Road Residents' Association Limited |
| Simon True | None | Christchurch Financial Solutions Limited |
| Quentin Zentner | P.A.T. (Pensions) Limited<br>P.A.T. (Pensions) Nominee Company No.1 Limited<br>P.A.T. (Pensions) Nominee Company No.2 Limited | |

Notes:

(1) For Clive Bannister's other directorships/partnerships, please see "*Other Directorships/Partnerships of the Board of the Guarantor*" above.

(2) For James McConville's other directorships/partnerships, please see "*Other Directorships/Partnerships of the Board of the Guarantor*" above.

As at the date of this Prospectus, there are no existing or potential conflicts of interest between any of the duties owed by the Directors of the Guarantor to the Guarantor and their private interests and other duties.

## REGULATORY OVERVIEW

### Overview

The Group's operations are subject to extensive government regulation, including FSMA and other UK laws, including, for example, the Data Protection Act 1998 in relation to the processing of customer data. Some of these laws require the relevant Group entity to be licensed or registered. Below is an overview of the regulatory framework for the insurance industry in the UK. The Group has operations that are subject to applicable law and regulation in the following jurisdictions: Hong Kong, Ireland, Guernsey and Jersey and to applicable laws in the US. In addition, Opal Re, a Group company and reinsurer for certain of the Life Companies, is subject to regulation under the laws of Bermuda and the rules of the BMA.

### The UK Financial Services and Markets Act 2000 ("FSMA")

As a result of the FSA being split into the PRA and the FCA with effect from 1 April 2013, all of the Life Companies in the UK are currently dual regulated by the FCA (for conduct matters) and PRA (for prudential matters), whilst others are solely regulated by the FCA (for both conduct and prudential matters). This overview addresses the regulatory framework after 1 April 2013.

#### 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 five stages denote a firm's proximity to failure, each of which will determine the PRA's supervisory approach, and the position of each insurer is reviewed annually 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 Pillar 2 capital to match the higher perceived risks, and enforcement action where the risks identified breach the FCA and PRA's high-level or more prescriptive rules.

#### Overview of FSMA regulatory regime Dual Regulators

The FCA and PRA regulate persons carrying out regulated activities 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 PRA will regulate firms which have permission to accept deposits (i.e. banks), to effect or carry out contracts of insurance (i.e. insurance companies) and firms that have permission to deal in investments as principal and whose balance sheet exceeds £15 billion. 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 UK 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 and investment business (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.

***Authorisation Procedure***

In granting a 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-(i.e. FCA) regulated firms, 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 to authorisation, firms are obliged to comply with the FCA and PRA Handbooks which contain detailed rules covering, among other things, systems and controls, conduct of business and prudential (i.e. capital) requirements.

***Principles for Businesses***

One section of the Handbook is the Principles for Businesses, which are high-level standards (all of which are applied by the FCA, and some by the PRA) for conducting financial services business in the UK. All firms are expected to comply with these Principles, 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 UK insurance and investment businesses is 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 business in the UK.

## Regulation Applicable to the Group’s Insurance Business

### Supervision of management (“Approved Persons”) and Change of Control of authorised firms

One of the methods by which the FCA and the PRA supervise the management of authorised firms is through the Approved Persons regime, under which any appointment of persons who hold positions of, among other things, significant influence within an authorised firm must be pre-approved by the FCA and, if relevant, the PRA. For dual regulated firms, certain Approved Persons, such as directors, are approved by the PRA and the PRA will consult with the FCA in relation to such approval. On 26 November 2014, the PRA published a consultation on a new senior managers’ regime for insurers. On the same date, the FCA published its own consultation on equivalent changes to the Approved Persons regime. These proposals are in part a response to the future requirement under Solvency II that regulators monitor the “fitness and propriety” of those staff of insurers with key roles. The deadline for responses to the consultations is in February 2015, following which rules will be published which will come into force on 1 January 2016.

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 approval to the change of control is sought from the PRA which will consult with the FCA. In considering whether to grant or withhold its approval to the acquisition 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 his acquisition of, or increase in, control.

A person ("**A**"), will acquire control (in accordance with s.181 FSMA, and be a "**controller**") of an authorised person ("**B**") if they hold:

*(a)* 10% or more of the shares in B or a parent undertaking of B ("**P**");

*(b)* 10% 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, if any, are aggregated.

A person ("**A**") will be treated as increasing (or decreasing) his control over an authorised firm ("**B**") (a "**Change of Control**"), requiring prior approval from the FCA (and PRA, if appropriate) if:

(i) the level of his percentage shareholding or voting power in B (or a parent undertaking of B ("**P**")) crosses the 10 per cent., 20 per cent., 30 per cent. or 50 per cent. threshold; or

(ii) 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 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 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 an Approved Person'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 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 and/or PRA Conduct of Business Rules

The FCA's Conduct of Business Rules apply to every authorised firm carrying on regulated activities 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, report appropriately to its clients and provide certain protections in relation to client assets.

The FCA and PRA'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 and PRA's 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 UK 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 TCF 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, which, among other things, require the firm to have adequate resources for the carrying on of its business. The PRA and FCA 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 Handbooks.

The PRA's and FCA's regulatory capital rules for insurers and investment firms are primarily contained in the General Prudential Sourcebook, Prudential Sourcebook for Banks, Building Societies and Investment Firms and Prudential Sourcebook for Insurers.

### 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.

**The Financial Services Compensation Scheme**

The FSCS is intended to compensate individuals and small businesses for claims against an 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.

**Insurance guarantee schemes**

Currently there are no rules at the EEA level requiring EU Member States to adopt insurance guarantee schemes such as that established by the FSCS. The European Commission has, however, indicated that it is considering proposing a directive with regard to insurance guarantee schemes. This was scheduled to be introduced by the third quarter of 2012, but is yet to be published. It is possible that such a directive may affect the operation of the FSCS.

Effecting and carrying out contracts of insurance as principal are regulated activities for the purposes of FSMA, and the carrying on of such regulated activities is referred to as insurance business. Some of the Guarantor’s subsidiaries carry on insurance business in the UK and are authorised and regulated by the PRA and regulated by the FCA.

**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 and (ii) long-term insurance contracts. Within (ii), more stringent requirements apply where the contract has an investment value or otherwise gives 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 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 UK 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.

### Regulatory capital rules for insurers

The PRA's rules which govern the prudential regulation of insurers are found in the Prudential Sourcebook for Insurers, the General Prudential Sourcebook and the Interim Prudential Sourcebook for Insurers. Overall, the requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance businesses more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets.

The PRA's rules require an insurer to prepare and submit to the PRA its own assessment of its capital requirements, known as an Individual Capital Assessment ("**ICA**"), based on the risks it faces. The PRA will use the ICA in order to form its own view (on a Pillar 2 basis) of a firm's capital requirements and if it disagrees with the ICA it will issue Individual Capital Guidance which it can impose as a requirement over and above Pillar 2 requirements. The Life Companies are operated with an internally set additional buffer over the ICA (currently 38 per cent. of ICA for PLL, the Group's largest Life Company).

An ICA is required at the PLHL level to assess risks arising outside the Life Companies, for example staff pension scheme risk. Life Companies would be allocated additional capital requirements to the extent that capital resources held outside the Life Companies are insufficient to support risks arising outside the Life Companies. In practice, the Group aims to ensure that the capital resources held outside the Life Companies are at least £150 million in excess of the capital requirements arising outside the Life Companies.

The Pillar 1 rules also require that insurance companies maintain assets sufficient to meet the relevant capital requirement at all times separately in respect both of any long-term insurance and any general insurance undertaken by the insurance company. The calculation of these requirements in any particular case are dependent on the type and amount of insurance business a company writes. The method of calculation of the Pillar 1 capital requirement is set out in the General Prudential Sourcebook and the level of an insurer's capital resources is also determined in accordance with the rules set out in that Sourcebook. Failure to maintain the Pillar 1 required capital resources requirement (or any additional requirements imposed on a Pillar 2 basis) is one of the grounds on which wide powers of intervention conferred upon the PRA may be exercised.

Under the Pillar 1 rules in the General Prudential Sourcebook, an insurer must hold capital resources equal at least to the minimum capital requirement ("**MCR**"). Insurers with with-profit liabilities of £500 million or more ("**realistic basis firms**") must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the "**ECR**"). The ECR is intended to provide a more risk responsive and "realistic" measure of a with-profit insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previous required minimum margin under the Interim Prudential Sourcebook for Insurers and satisfies the minimum EU standards.

Determination of the ECR for realistic basis firms involves the comparison of two separate measurements of the firm's financial resources requirements. The regulatory basis reflects a prudent assessment of contractual liabilities whereas the realistic basis includes more discretionary but expected benefits, including those required to treat customers fairly.

Long-term business assets and liabilities—those assets and liabilities relating to, broadly, life and health insurance policies—must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund must be established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the rules in the Prudential Sourcebook for Insurers. Only the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation (the "**established surplus**") may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. The rules in the Prudential Sourcebook for Insurers require, in addition to the capital requirements referred to below, the maintenance of sufficient assets in the separate long-term insurance fund (and, if applicable, funds within the long-term fund such as a with-profits fund) to cover the actuarially determined value of the liabilities attributable to that fund (or the relevant part of that fund).

The Solvency II framework does not include a concept of long-term insurance fund and as a result that concept will cease to apply with effect from 1 January 2016. 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. Largely as a result of these Solvency II developments and also the split between the PRA and FCA (referred to under "*With-profit business*" below), in October 2014, the PRA published a consultation paper *"The PRA's approach to with-profits business"*. In this paper, the PRA proposes rules including a requirement that firms hold, within each of their with-profits funds, assets that are sufficient to meet the with-profits liabilities of such funds. Also in October 2014, the FCA published a feedback statement *"Feedback Statement on FSA 12/13 Solvency II – COBS rules changes"*. Amongst other things, this statement confirms that the FCA intends to 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 and, as a result, the new requirement for assets in a with-profits fund is the same as the current rules. Those with-profit funds will be ring-fenced funds for the purposes of Solvency II.

In *"The PRA's approach to with-profits business",* the PRA has noted that some firms have support arrangements in place to afford a degree of benefit security for policyholders where this would not be possible from the assets of the with-profits fund alone; the proposed rules require that the terms of any such support arrangement be clarified and codified. The deadline for comment on the consultation is in January 2015, following which rules will be published which will come into force on 1 January 2016.

See also "*Insurance Groups Directive*" below.

The FSA, and since April 2013, the PRA have required insurance companies to make preparations for the new EU Solvency II Framework (the main aspects of this framework are described in "*Risk Factors—Risks related to the Group—Various new reforms to the legislation and regulation relating to the UK life insurance industry are being implemented that could adversely affect the Group*" and in more detail in *"Solvency II"* below).

**With-profit business**

The FCA and PRA co-ordinate 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. This Memorandum of Understanding was followed by the simultaneous publication in October 2014 by the PRA and the FCA of their respective approaches to with-profits business (as referred to above in *"Regulatory Capital for Insurers"* and *"Distribution of profits and with-profits business"*). Given the respective focuses of the PRA and FCA, the PRA proposes to delete the rules referred to below relating to the PPFM and other rules relating to distributions to with-profits policyholders from its Rulebook and those rules will remain only in the FCA Handbook. The FCA's *"Feedback Statement on FSA 12/13 Solvency II – COBS rules changes"* sets out a revised draft of the instrument proposing changes to the FCA rules.

### Actuarial functions

The rules in the PRA's Supervision Manual require that every insurance company that carries on long-term business must appoint one or more actuaries to perform the "**actuarial function**" in respect of all classes of its long-term insurance business and, if it has any with-profit business, the "**with-profit actuary function**" in respect of all classes of that with-profit business.

The actuary performing the "**actuarial function**" must prepare an annual report for the Directors quantifying the company's long-term liabilities attributable to the insurance company's long-term insurance business, determining the value of any excess over those liabilities of the assets representing the long-term insurance fund and where any rights of long-term policyholders to participate in profits relate to particular parts of such a fund, a valuation of any excess of assets over liabilities in respect of each of those parts.

The actuary performing the with-profit actuary function must 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-profit business of the firm in respect of which he has been appointed. He must also, 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 Principles and Practices of Financial Management ("**PPFM**") on which the advice described has been given) of the discretion exercised for the period covered by his report affecting those classes of with-profit business of the firm.

### Distribution of profits and with-profit business

The Interim Prudential Sourcebook for Insurers provides that, once an allocation of surplus in a with-profit fund has been made to policyholders, no transfer of assets representing any part of a subsequent surplus can be made, to shareholders or otherwise, unless either the "**relevant minimum**" (as defined in the Interim Prudential Sourcebook for Insurers) of the surplus has been allocated to policyholders or a statutory notification procedure has been followed. Calculation of the relevant minimum is based upon the percentage of the relevant surplus previously allocated to eligible policyholders.

There has been considerable public debate regarding the rights and legitimate expectations of with-profit policyholders to assets forming part of an insurance company's surplus, particularly where such assets do not derive from the payment of current policyholders' premiums but are rather "inherited" from previous generations of policyholders or from other entities. In December 2007, the FSA published guidance on the reattribution of a firm's inherited estate. In July 2009, the FSA confirmed the proposals contained in its February 2009 consultation paper, that proprietary (as opposed to mutual) firms should no longer be able to charge mis-selling costs to the inherited estate where those costs are incurred after July 2009. In *"The PRA's approach to with-profits business"* the PRA proposed rules which would require that firms engaged in with-profits business ensure that their distribution strategies are affordable and sustainable.

The PRA's existing rules also mandate 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.

Since 1 April 2004, firms carrying on with-profit business have been required to produce the PPFM and to make them publicly available. From the same date, firms have also been required to have in place the relevant governance arrangements and reporting procedures to with-profit policyholders.

**Reporting requirements**

The main financial reporting rules for insurers are contained in the Interim Prudential Sourcebook for Insurers. Insurance companies must file a number of items with the PRA, including their audited annual accounts and balance sheets and life insurers annual reports from the actuary performing the actuarial function. The reporting requirements for insurers will be considerably expanded when the Solvency II regime comes into force. See "*Solvency II*" below.

**Transfers of insurance business**

Any transfer of UK insurance business must be effected in accordance with Part VII of FSMA, which requires a scheme of transfer to be prepared and approved by the High Court. As a practical necessity, PRA approval (which will involve consultation with the FCA) may also be required in addition to an order by the court approving the transfer, and a report of an independent expert is required on whether the proposed transfer would be prejudicial to policyholders. 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.

**Insurance Groups Directive ("IGD")**

A group of companies whose activities are primarily concentrated in the insurance sector in a member state of the EEA is subject to the capital adequacy requirements of the IGD. This directive sets forth the requirement for a group capital adequacy calculation, also known as a group solvency calculation, a parent undertaking solvency margin calculation or an IGD solvency surplus. The IGD requires that EEA-regulated insurance entities, in certain circumstances, prepare and submit to their relevant EEA-group regulatory supervisor a group capital adequacy calculation. This calculation is intended to enable an insurer's group regulatory supervisor to assess both the level of insurance and financial risk within the insurance group and the resources available to cover this risk. Where insufficient group resources are available, the supervisor may consider the risk to the insurers that it regulates and exercise supervisory judgements in relation to the same (which could include requirements to raise additional capital or refrain from making distributions).

Under the PRA's rules implementing the IGD, each PRA regulated insurance entity is required to carry out group solvency calculations at the level of the ultimate worldwide insurance parent undertaking and, if different, the highest EEA-regulated insurance parent undertaking.

The Guarantor's head office is in Jersey in the Channel Islands which is not part of the EEA. It qualifies as an "**insurance parent undertaking**". The Group's dual-regulated firms are therefore required to submit two group capital adequacy calculations to the PRA:

- one for the ultimate insurance parent undertaking, that is, for the Guarantor and its subsidiaries; and
- one for the highest insurance parent undertaking located within the EEA, that is, for Phoenix Life Holdings Limited and its subsidiaries.

However, the group solvency calculation for a non-EEA insurance parent undertaking is currently a "**soft test**" (i.e. a reporting requirement) only. In other words, the group solvency calculation at this level must be submitted to the PRA, but the group solvency position need not meet or exceed it, unless the PRA imposes a requirement to that effect. The test at the level of the ultimate EEA insurance parent undertaking is a "hard test" and capital needs to be held sufficient to satisfy the capital requirements indicated by such calculation. See also "*Capital rules for insurers*" above.

Please see "*Solvency II*" below for information on the European Commission's new Solvency II prudential framework for insurance groups and insurance group companies.

### Solvency II

The European Commission is finalising the new Solvency II prudential framework for insurance companies, which will enter into full force on 1 January 2016. This will update, among other things, the existing EU life, non-life, reinsurance and insurance groups directives. The main aim of this 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 Basel 3, the new approach is based on the concept of three pillars: quantitative requirements (the amount of 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.

However, the scope of the Solvency II project is wider than Basel 3. It will contain rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of a MCR and a higher and more risk sensitive solvency capital requirement ("**SCR**");
- what capital ("**own funds**") is eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital may so count;
- what 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 capital models may be used to calculate the SCR;

- governance requirements including risk management processes;
- 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 "**capital add-on**" in appropriate cases, the add-on to be imposed by the relevant supervisor (the PRA in the case of UK firms);
- rules on insurance products which are linked to the value of specific property or indices ("**unit linked products**");
- 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.

The Solvency II directive containing the outlines of the above regime was formally adopted in November 2009. The Solvency II directive is amended by the Omnibus II directive, which was proposed in January 2011, to bring the Solvency II directive into line with the EU's Lisbon Treaty. The European Parliament and Council reached an agreement on Omnibus II on 13 November 2013, and the agreed text has been published. The European Parliament voted to adopt the Omnibus II directive at its plenary session on 11 March 2014, and the European Council adopted the Omnibus II directive on 14 April 2014. Under the Solvency II directive, as amended, in addition to providing legal powers to the European Insurance and Occupational Pensions Authority which replaces the Committee of European Insurance and Occupational Pensions Supervisors, the Solvency II implementation is to be bifurcated, such that responsibilities of national supervisors and EIOPA will take effect in March 2015, earlier than when Solvency II comes into force. The Solvency II directive is to be implemented by EU Member States by 1 January 2016. In the UK, several consultation papers have been published by the FSA and the PRA in relation to the transposition of the Solvency II directive into national law – Consultation Paper 11/22 "*Transposition of Solvency II Part 1",* Consultation Paper 12/13 *"Tranposition of Solvency II Part 2*", Consultation Paper 16/14 "*Transposition of Solvency II Part 3"* and, most recently, in November 2014, Consultation Paper 24/14 "*Solvency II: further measures for implementation*". The proposed UK rules generally replicate the Level 2 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 (see "*Regulatory capital rules for insurers*" and "*With-profit business*" above). The Level 2 rules, which supplement the Solvency II directive with more detail, were adopted by the European Commission on 10 October 2014 and entered into force on 18 January 2015. There will also be consultations on draft Level 2.5 technical standards and Level 3 guidelines. National supervisors will be required to comply with the guidelines or explain why they do not do so.

The framework includes a new regime for insurance groups and specific provision for groups the parent undertakings of which have their head offices outside the EEA. This applies to the Guarantor, as its head office is in Jersey, which 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 the Solvency II directive:

- for the purpose of determining whether reinsurance ceded to a solo insurer or 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 applying the deduction/aggregation method of determining group capital adequacy a non-EEA firm should (i) be treated as if it were an EEA firm or whether (ii) its contribution to group capital adequacy may be determined by reference to local rules; and
- for the purpose of determining whether the standard of group supervision in the jurisdiction concerned is equivalent to EEA standards.

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 Commission may also recognise equivalence on a transitional basis.

Such equivalence may be recognised for the following purposes:

- for group solvency calculations: affecting the calculation of the group solvency of a participating undertaking in a third country (re)insurance firm. 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, it's 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 group supervision purposes: in relation to group supervision in the third country where the parent undertaking of the group has its head office. 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.

An election for "other methods" might mean (on the assumption that Jersey remains non-equivalent for the purposes of Solvency II) that the capital regulation of the Group was unaffected by the changes to the group regime. However, if the PRA chooses to apply Solvency II rules at the worldwide group level, this would, among other things, result in the group regulatory capital calculation being performed at the Guarantor level. The assessment at Guarantor level would bring into account a contribution to group capital adequacy from Opal Re, which is a subsidiary of the Guarantor but which is not a subsidiary of PLHL. However, it could also bring the Group's external bank debt and Senior Bonds into the calculation and remove capital instruments which currently qualify for the EEA parent level calculation. In any event, the Guarantor is not aware that Jersey is seeking Solvency II equivalence status.

Certain of the Group's subsidiaries are 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. 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.

The PRA is operating a "pre-application" process, under which the PRA reviews a firm's internal model so that any shortfalls may be identified and rectified ahead of a formal application for approval under the Solvency II rules, which may be made after 1 April 2015. The Governor of the Bank of England reinforced in a September 2014 speech that the PRA would not hesitate to refuse approval for opaque or inadequate models, noting that poorly designed models would not be acceptable. In such a situation a firm may be required to adopt a partial internal model or to use the standard formula. In either case, the PRA may impose capital add-ons if it considers that the resultant capital requirement does not reflect the risk exposures of the firm.

The Group has fully embraced the requirements of the Solvency II project and has participated in various preparatory studies. The Group has dedicated projects in place to deal with the implementation of the new regime and is in active engagement with the PRA in connection with the pre-application process referred to above.

The Group is actively monitoring proposals as they develop and participates in feedback provided from the industry to the regulators. The Directors expect Solvency II to result in an improved understanding of the link between risk and capital management and welcome the increased focus on risk management that Solvency II will bring. The Group is currently working with the Association of British Insurers and other UK insurers through membership of Solvency II working groups with a view to ensuring that the final technical specifications are appropriate for the UK insurance market.

The Group notes that the technical specifications are likely to result in a significant increase in the capital requirements of the Life Companies and may result in a significant increase in the capital requirements of the Insurance Group. However, the Group expects the increase in capital requirements to be mitigated to an extent by the introduction of transitional provisions, included in the Omnibus II directive, which are designed to ensure a smooth transition to the new regime. However, there remains uncertainty regarding the technical application and quantum of these provisions, for which approval by the PRA will be required.

The PRA has indicated that it expects to issue a consultation paper on transitional provisions in January 2015.

See also the risk factor entitled "*Various new reforms to the legislation and regulation relating to the UK life insurance industry are being implemented that could adversely affect the Group.*" for further information.

### Conduct of Business requirements for investment businesses and the Markets in Financial Instruments Directive

MiFID, unlike its predecessor legislation, the Investment Services Directive, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and regulated markets. In particular, MiFID and its implementing measures make specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross border investment services.

Changes to the FSA's Conduct of Business Rules came into effect on 1 November 2007 in accordance with the requirements of MiFID. Although MiFID does not apply to insurance businesses, it has driven changes to the Conduct of Business Rules, including those that apply to insurance businesses.

In October 2011, the European Commission published proposed amendments to MiFID ("**MiFID II**"). The Directive on Markets in Financial Instruments repealing MiFID and the new Regulation on Markets in Financial Instruments were published in the Official Journal on 12 June 2014. Member States have two years to transpose the new rules, which will be applicable starting January 2017.

### Capital requirements for investment businesses

The FCA and PRA's capital requirements for investment businesses are also contained in the Prudential Standards section of their Handbooks, primarily in the General Prudential Sourcebook (GENPRU), the Prudential sourcebook for Insurers (INSPRU), the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU), the Interim Prudential sourcebook for Insurers (IPRU-INS), the Interim Prudential sourcebook for Investment Businesses (IPRU-INV) and the new Prudential Sourcebook for Investment Firms (IFPRU).

## Bermuda Insurance Regulations Applying to a Class C Insurer in Bermuda

### Overview

The Insurance Act 1978, and related regulations (the "**Bermuda Insurance Act**"), provides that no person shall carry on insurance business in or from within Bermuda unless registered as an insurer under the Bermuda Insurance Act by the Bermuda Monetary Authority (the "**BMA**").

### Classification of Insurers

The Bermuda Insurance Act distinguishes between insurers carrying on long-term business, insurers carrying on general business and insurers carrying on special purpose business. Long-term business consists of insurance contracts covering life, annuity, accident and disability risks and certain other types of contracts which do not include "excepted long-term business".

There are five classifications of insurers carrying on long-term business, ranging from Class A insurers (pure captives writing parent related long-term business) to Class E insurers (very large commercial long-term carriers).

Opal Re is registered as a Class C Insurer in Bermuda and is regulated as such under the Bermuda Insurance Act. Certain significant aspects of the Bermuda insurance regulatory framework applicable to Class C insurers are set forth below. The Bermuda Insurance Act does not distinguish between insurers and reinsurers: companies are registered under the Bermuda Insurance Act as "insurers".

### Minimum Paid-Up Share Capital

Class C insurers are required to maintain fully paid up share capital of at least $250,000.

### Annual Financial Statements

A Class C insurer must prepare and submit, on an annual basis, both audited GAAP and statutory financial statements. The Bermuda Insurance Act prescribes rules for the preparation and substance of statutory financial statements (which include, in statutory form, a balance sheet, income statement, a statement of capital and surplus, and notes thereto). The statutory financial statements include detailed information and analysis regarding premiums, claims, reinsurance and investments of the insurer.

In addition, a Class C insurer is also required to prepare and submit to the BMA financial statements which have been prepared under generally accepted accounting principles or international financial reporting standards ("**GAAP financial statements**").

The company's annual statutory financial statements and GAAP financial statements are required to be filed with the BMA within four months from the end of the relevant financial year (unless specifically extended). The statutory financial statements do not form part of the public records maintained by the BMA but the GAAP financial statements are available for public inspection.

### Annual Statutory Financial Return and Annual Capital and Solvency Return

A Class C insurer is required to file with the BMA a statutory financial return no later than four months after its financial year end (unless specifically extended).

The statutory financial return includes, among other matters, a report of the approved independent auditor on the statutory financial statements of the insurer, a long-term business solvency certificate, the statutory financial statements themselves, a declaration of the statutory ratios and an actuary's certificate in the prescribed form as to the amount of the insurer's long-term liabilities outstanding on account of its long-term business.

The principal representative and at least two directors of the insurer (one of whom must be a Bermuda resident director if any of the company's directors are resident in Bermuda) must sign the solvency certificate.

The directors are required to certify, inter alia, whether the minimum solvency margin has been met, and the independent approved auditor is required to state whether in its opinion it was reasonable for the directors to make such certifications. Where an insurer's accounts have been audited for any purpose other than compliance with the Bermuda Insurance Act, a statement to that effect must be filed with the statutory financial return.

In addition, each year a Class C insurer is also required to file with the BMA a capital and solvency return along with its annual financial statutory return. The prescribed form of capital and solvency return comprises the insurer's Class C Bermuda Solvency Capital Requirement ("**Class C BSCR**") model or an approved internal capital model in lieu thereof (more fully described below), a schedule of fixed income investments by rating categories, a schedule of long-term premiums, a schedule of risk management, a schedule of fixed income securities, a schedule of long-term insurance data, a schedule of long-term variable annuity data and reconciliation, a schedule of commercial insurer's solvency self assessment (CISSA) and a schedule of eligible capital.

Neither the statutory financial return nor the capital and solvency return is available for public inspection.

### Minimum Solvency Margin and Enhanced Capital Requirements

The Bermuda Insurance Act provides that the value of the statutory assets of an insurer must exceed the value of its statutory liabilities by an amount greater than its prescribed minimum solvency margin ("**MSM**").

The MSM that must be maintained by a Class C insurer with respect to its long-term business is the greater of $500,000 or 1.5 per cent. of its assets. Assets are defined as the total assets reported on an insurer's balance sheet in the relevant year less the amount held in a segregated account.

Class C insurers are also required to maintain available statutory capital and surplus at a level equal to or in excess of its Enhanced Capital Requirement which is established by reference to either the Class C BSCR model or an approved internal capital model.

The Class C BSCR model is a risk-based capital model which provides a method for determining an insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The Class C BSCR formulae establish capital requirements for eight categories of risk: fixed income investment risk, equity investment risk, interest rate/liquidity risk, premium risk, reserve risk, credit risk, catastrophe risk and operational risk. For each category, the capital requirement is determined by applying factors to asset, premium, reserve, creditor, probable maximum loss and operation items, with higher factors applied to items with greater underlying risk and lower factors for less risky items.

While not specifically referred to in the Bermuda Insurance Act, once the ECR becomes effective, every Class C insurer will also be required to maintain its statutory capital and surplus at the appropriate target capital level ("**TCL**") which shall equal 120 per cent. of its ECR. The TCL serves as an early warning tool for the

BMA and failure to maintain statutory capital at least equal to the TCL will likely result in increased regulatory oversight.

Any Class C insurer which at any time fails to meet its MSM requirements must, upon becoming aware of such failure, immediately notify the BMA and, within 14 days thereafter, file a written report with the BMA containing particulars of the circumstances that gave rise to the failure and setting out its plan detailing specific actions to be taken and the expected timeframe in which the company intends to rectify the failure.

A Class C insurer which at any time fails to meet its enhanced capital requirement applicable to it shall upon becoming aware of that failure, or of having reason to believe that such a failure has occurred, immediately notify the BMA in writing and within 14 days of such notification file with the BMA a written report containing particulars of the circumstances leading to the failure; and a plan detailing the manner, specific actions to be taken and time within which the insurer intends to rectify the failure and within 45 days of becoming aware of that failure, or of having reason to believe that such a failure has occurred, furnish the BMA with (i) unaudited interim statutory financial statements covering such period as the BMA may require; (ii) the opinion of a loss reserve specialist where applicable; (iii) a general business solvency certificate in respect of the financial statements; and (iv) a capital and solvency return reflecting an enhanced capital requirement prepared using post failure data where applicable.

### Eligible Capital

To enable the BMA to better assess the quality of the insurer's capital resources, a Class C insurer will, from 31 December 2015, be required to disclose the makeup of its capital in accordance with the recently introduced '3-tiered capital system'. Under this system, all of the insurer's capital instruments will be classified as either basic or ancillary capital which in turn will be classified into one of 3 tiers based on their "loss absorbency" characteristics. Highest quality capital will be classified Tier 1 Capital, lesser quality capital will be classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital (as set out the Insurance (Eligible Capital) Rules 2012, and any amendments thereto (the "**Eligible Capital Rules**")), may be used to support the insurer's MSM, ECR and TCL.

The characteristics of the capital instruments that must be satisfied to qualify as Tier 1, Tier 2 and Tier 3 Capital are set out in the Eligible Capital Rules. Under the Eligible Capital Rules, Tier 1, Tier 2 and Tier 3 Capital may, until January 1, 2024, include capital instruments that do not satisfy the requirement that the instrument be non-redeemable or settled only with the issuance of an instrument of equal or higher quality upon a breach, or if it would cause a breach, of the ECR.

Where the BMA has previously approved the use of certain instruments for capital purposes, the BMA's consent must to be obtained if such instruments are to remain eligible for use in satisfying the MSM and the ECR.

### Cancellation of insurer's registration

An insurer's registration may be cancelled by the Supervisor of Insurance of the BMA on certain grounds specified in the Insurance Act, including failure of the insurer to comply with its obligations under the Insurance Act.

### Principal representative

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Opal Re's principal office is its executive offices at Sterling House, 16 Wesley Street, Hamilton, Bermuda, and its principle representative is Kathryn Siggins, Fellow of the Institute of Chartered Accountants, a Bermuda resident and a director of Opal Re.

It is the duty of the principal representative to notify the BMA where it believes there is a likelihood of the insurer (for which the principal representative acts) becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred. Examples of a reportable "event" include a failure by the insurer to comply substantially with a condition imposed upon it by the BMA relating to a solvency margin or a liquidity or other ratio, a significant loss reasonably likely to cause the insurer to fail to comply with its enhanced capital requirement (discussed below) and the occurrence of a material change (as such term is defined under the Bermuda Insurance Act) in its business operations. Within 14 days of such notification to the BMA, the principal representative must furnish the BMA with a written report setting out all the particulars of the case that are available to the principal representative.

**Independent approved auditor**

Opal Re, as a registered insurer, must appoint an independent auditor to audit and report annually on the statutory financial statements and the statutory financial return of the insurer, both of which are required to be filed annually with the BMA. Opal Re's auditor is Ernst & Young Ltd.

**Insurer's approved actuary**

A Class C insurer such as Opal Re cannot carry on long-term business without an approved actuary (referred to in the Insurance Act as the "**insurer's approved actuary**"). An insurer's approved actuary must be approved by the BMA. Opal Re's approved actuary is Robert Holliday of KPMG.

**Annual statutory financial return and statutory financial statements**

Under the Insurance Act, Opal Re is required to file annually a statutory financial return and financial statements within four months from its financial year end, which may be extended on application to seven months. The statutory financial return includes the auditor's report on the financial statements and a certificate of the approved actuary on the liabilities recorded in the financial statements.

**Restrictions on Dividends and Distributions**

A Class C insurer is prohibited from declaring or paying a dividend if it is in breach of its MSM or its ECR or if the declaration or payment of such dividend would cause such a breach. Where an insurer fails to meet its MSM on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA.

**Reduction of Capital**

No Class C insurer may reduce its total statutory capital by 15 per cent. or more, as set out in its previous year's financial statements, unless it has received the prior approval of the BMA. Total statutory capital consists of the insurer's paid in share capital, its contributed surplus (sometimes called additional paid in capital) and any other fixed capital designated by the BMA as statutory capital (such as letters of credit).

Class C insurers seeking to reduce their statutory capital by 15 per cent. or more, as set out in its previous year's financial statements, must also submit an affidavit signed by at least two directors (one of whom must be a Bermuda resident director if any of the company's directors are resident in Bermuda) and the principal representative stating that the proposed reduction will not cause the company to fail its relevant margins. Where such an affidavit is filed, it shall be available for public inspection at the offices of the BMA.

**Fit and Proper Controllers**

The BMA maintains supervision over the controllers of all registered insurers in Bermuda. A shareholder controller that owns 10 per cent. or more but less than 20 per cent. of the shares as described above is defined as a 10 per cent. shareholder controller; a shareholder controller that owns 20 per cent. or more but less than 33 per cent. of the shares as described above is defined as a 20 per cent. shareholder controller; a shareholder controller that owns 33 per cent. or more but less than 50 per cent. of the shares as described above is defined as a 33 per cent. shareholder controller; and a shareholder controller that owns 50 per cent. or more of the shares as described above is defined as a 50 per cent. shareholder controller.

Where the shares of the shareholder of a registered insurer, or the shares of its parent company, are traded on a recognised stock exchange, and such person becomes a 10 per cent., 20 per cent., 33 per cent. or 50 per cent. shareholder controller of the insurer, that person shall, within 45 days, notify the BMA in writing that he has become such a controller.

### Supervision, investigation and intervention

The BMA has wide powers of investigation and document production in relation to Bermudan insurers under the Insurance Act. For example, the BMA may appoint an inspector with extensive powers to investigate the affairs of Opal Re if the BMA believes that such an investigation is in the best interests of its policyholders or persons who may become policyholders.

### Disclosure of information

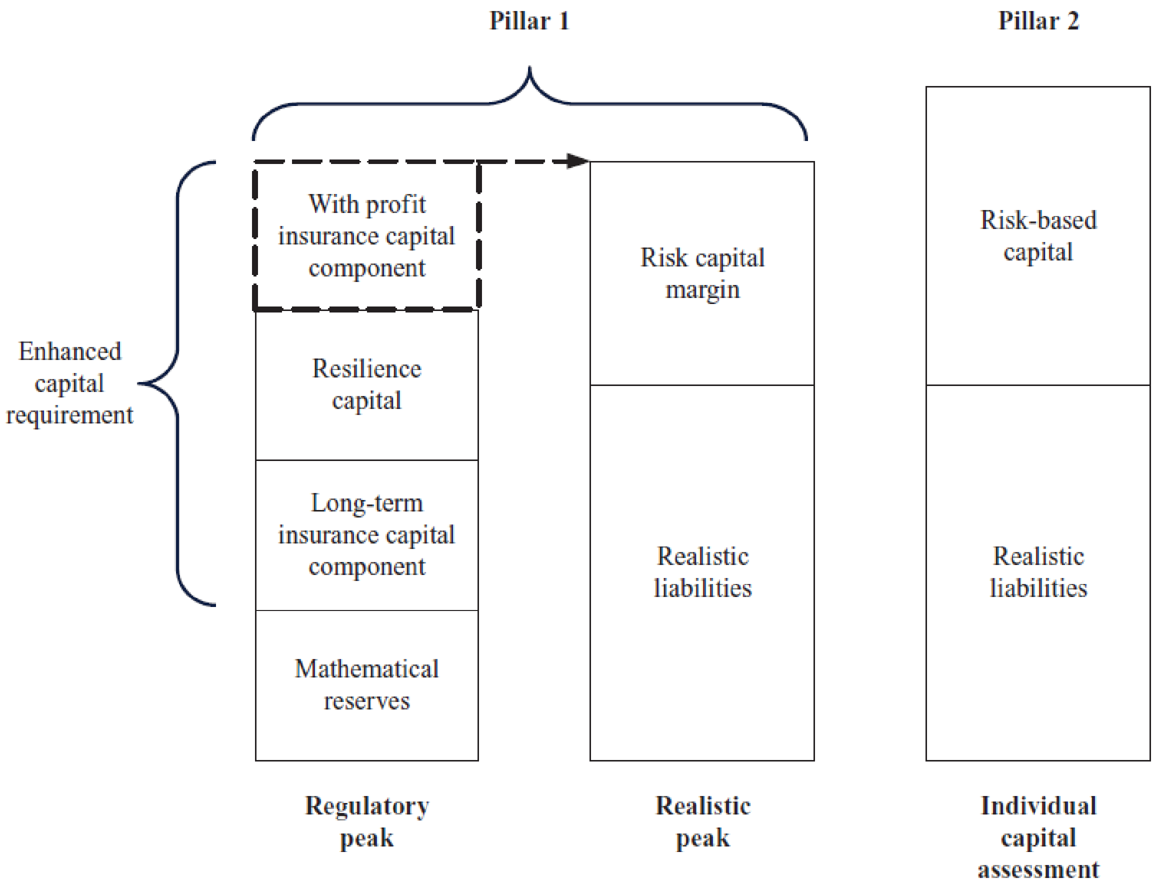
The BMA may assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda, but is subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the BMA must consider whether cooperation is in the public interest. The grounds for disclosure are limited, and the Insurance Act provides sanctions for breach of the statutory duty of confidentiality.

## General Overview of the UK Regulatory Capital Framework

### Overview

Each UK life company must retain sufficient capital at all times to meet the regulatory capital requirements mandated by the PRA. In addition to EU-directive-based “Pillar 1” and group capital requirements, the PRA has also stipulated a “Pillar 2” of risk-based capital requirements that have been implemented in the UK. A life company’s actual capital requirement is based on whichever of the Pillar 1 or Pillar 2 requirement turns out to be more onerous for the company. Each life company generally holds an amount of capital that is greater than the minimum required amount to allow for adverse events in the future that may use capital and cause the company to fail the minimum level of regulatory capital test.

The following diagram provides an overview of the UK regulatory capital framework for a with-profit fund:




The UK regulatory capital framework for a non-profit fund is similar to the above diagram, but the realistic peak and hence the with-profit insurance capital component, or the WPICC, is not relevant.

**Pillar 1**

***Regulatory peak***

Mathematical reserves are liabilities calculated using assumptions including prudential margins but exclude any final bonus liabilities for with-profit policies. The calculation of these reserves falls under a set of rules prescribed by the EU and the PRA. With the exception of with-profit businesses, the regulatory capital requirement under Pillar 1 is the total amount held in respect of investment, expense and insurance risks (the "**long-term insurance capital component**") and any additional amounts required to cover the more onerous of two specified stress tests (the "**resilience capital requirement**"). The regulatory capital requirement is then deducted from the available capital resources to give the regulatory basis excess capital.

***Realistic peak***

A further test is required under Pillar 1 in respect of with-profit funds. This test compares the life company's level of realistic basis excess capital to the regulatory basis excess capital and, in circumstances where the realistic basis excess capital position is less, the life company is required to hold additional capital to cover the shortfall. The realistic basis excess capital is calculated as the difference between realistic assets and realistic liabilities of the with-profit fund with a further deduction to cover various stress tests (the "**risk capital margin**"). Any additional capital requirement under this test to that of the regulatory peak is referred to as the "**with-profit insurance capital component**", or the WPICC.

**Individual Capital Assessment under Pillar 2**

The Pillar 2 capital requirements are based on a self-assessment methodology, the so-called individual capital assessment methodology. This methodology determines the capital requirement to ensure that the life company's realistic liabilities can be met in one year's time with a 99.5 per cent. confidence level, or a one-in-200-year event. This assessment includes both mathematically and subjectively derived risk capital tests.

The PRA will use the ICA in order to form its own view of a firm's Pillar 2 capital requirements and if it disagrees with the ICA it will issue Individual Capital Guidance which it can impose as a requirement over and above Pillar 2 requirements. The Life Companies are operated with an internally set additional buffer over the ICA (currently 38 per cent. of ICA for PLL, the Group's largest Life Company.

**IGD Surplus**

PRA regulated insurance groups (including their insurance holding companies) are required to provide capital adequacy calculations on a group-wide basis, a so-called "IGD surplus", to enable the PRA to assess both the level of insurance and financial risk within the relevant insurance group and the resources available to cover this risk.

# DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS

## Overview

The Group intends to raise finance through the Issuer in the expectation that ultimately (amongst other things) a credit rating may be assigned to the Group which, if obtained and subject to, *inter alia*, market conditions and the satisfaction of the relevant rating agency criteria, might enable the Group to obtain finance on terms which are broadly consistent with terms typically afforded to investment grade borrowers.

## The Senior Bonds

On 7 July 2014, the Issuer issued the Senior Bonds, being a £300 million senior unsecured bond with an annual coupon of 5.75 per cent, which is guaranteed by the Guarantor on a senior basis. The Senior Bonds constitute direct, senior, unconditional, unsubordinated and unsecured obligations of the Issuer. Unless previously redeemed or purchased and cancelled, the Senior Bonds will mature on 7 July 2021. The Senior Bonds are subject to redemption in whole at the option of the Issuer at any time in the event of certain changes affecting the taxes of Ireland, Jersey or the Cayman Islands. The Senior Bonds are also subject to redemption at the option of Bondholders in certain circumstances following a change of control of the Guarantor. The Issuer, the Guarantor and various subsidiaries of the Guarantor are subject to certain covenants for as long as the Senior Bonds are not given an Investment Grade Rating. The Senior Bonds are listed on the London Stock Exchange. The net proceeds of the issuance were used to prepay the Impala Facility. The obligations of the Issuer and the Guarantor under the Senior Bonds rank ahead of their obligations in respect of the Notes.

## The Facilities Agreement

On 23 July 2014 the Guarantor and the Issuer entered into the Facilities Agreement dated 23 July 2014 between, among others, the Issuer (as borrower), the Guarantor (as guarantor) and Commerzbank Aktiengesellschaft, Luxembourg Branch (as agent).

The Facilities Agreement comprises the Revolving Credit Facility and the Term Facility, with each such facility guaranteed by the Guarantor. Both facilities are fully drawn.

The facilities each have a final maturity date of 23 July 2019, subject to a right of the Guarantor to request a two year extension to the term of the Revolving Credit Facility. However, upon a change of control of the Guarantor (or the Guarantor ceasing to directly own the Issuer) each lender will have an individual right to cancel its commitments and may require its participations in the Facilities Agreement to be repaid in full.

The Term Facility is repayable in semi-annual instalments of £30,000,000 each, on 30 June and 31 December of each year. The first instalment was due and paid on 31 December 2014. The instalment due on 30 June 2015 was prepaid on 31 December 2014. The Issuer is also required to target the repayment of additional semi-annual instalments of £30,000,000 on 30 June and 31 December of each year from 30 June 2015. Failure by the Issuer to make a target repayment will not constitute a default under the Facilities Agreement. However, it would prevent the declaration of dividends by the Guarantor while the target repayment remains outstanding. No similar target repayments are required in relation to the Revolving Credit Facility.

The facilities bear interest at LIBOR plus opening margins of 3.50 per cent. per annum in respect of the Term Facility and 3.25 per cent. per annum in respect of the Revolving Credit Facility. After the first six month period, the margins applicable to each facility will change in accordance with a margin ratchet which operates by reference to the Group's gearing ratio. The margins in the margin ratchet will also be reduced by a further 0.50 per cent. per annum for so long as the Issuer or the Guarantor holds an Investment Grade Rating in respect of any debt they have issued or incurred.

Amongst other customary fees, the Issuer is required to pay a utilisation fee of 0.25 per cent. per annum in respect of the Revolving Credit Facility for so long as the amount outstanding under the Revolving Credit Facility exceeds 50 per cent. of the total commitments of the Revolving Credit Facility.

The Facilities Agreement contains restrictions on entering into certain arrangements with the pension trustee of the Pearl Group Staff Pension Scheme if those arrangements would be materially adverse to the interests of the finance parties under the Facilities Agreement.

The events of default under the Facilities Agreement are customary, and include enforcement by the Pearl Group Staff Pension Scheme pension trustee of its security interests over shares in Group companies.

See also "*General Information—Material Contracts of the Guarantor*" for a description of the Tier 1 Bonds and the PLL Tier 2 Bonds.

# TAXATION

*The following is a general description of certain Cayman Islands, Jersey, Irish and UK tax considerations relating to the Notes, as well as a description of the Savings Directive and Financial Transactions Tax. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. It relates to the position of persons who are the absolute beneficial owners of the Notes and some aspects do not apply to certain classes of taxpayer (such as dealers and Noteholders who are connected or associated with the 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, Jersey, 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 any person through which an investor holds Notes, 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

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

The Guarantor is registered as an "exempted company" pursuant to the Companies Law. The Guarantor 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 or which is in the nature of estate duty or inheritance tax shall apply to the Guarantor or its operations; and in addition that no tax to be levied on profits, income, gains or appreciations shall be payable (i) on or in respect of the shares, debentures or other obligations of the Guarantor or (ii) by way of the withholding in whole or in part of payment of dividend or other distribution of income or capital by the Guarantor to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Guarantor. Accordingly, it is not envisaged that the Guarantor 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 by the Guarantor pursuant to the Guarantee.

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the Cayman Islands.

## Jersey

The Guarantor is subject to a zero per cent. rate of corporation/income tax in Jersey as a "non-financial services company" for the purposes of the Income Tax (Jersey) Law 1961, as amended.

Noteholders who are not resident for income tax purposes in Jersey are not subject to taxation in Jersey in respect of any income or gains arising in respect of Notes held by them. Noteholders who are resident for income tax purposes in Jersey will be subject to income tax in Jersey on any interest paid on Notes held by them or on their behalf. Under current law neither the Guarantor nor the Issuer is obliged to withhold income tax from these payments or from payments under the Guarantee. No duties are payable in Jersey on the issue, conversion, redemption or transfer of Notes. Stamp duty is payable at a rate up to approximately 0.75 per cent. of the value of Notes on the registration of Jersey probate or letters of administration which may be required in order to transfer, convert, redeem or make payments in respect of Notes held by a deceased individual sole holder of shares and/or warrants who is resident for tax purposes in Jersey. There is no capital gains tax, estate duty or inheritance tax in Jersey.

## Ireland

### Taxation of Noteholders

#### *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. The Issuer 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 the Issuer), 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 (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the person who is the beneficial owner of the Notes and who is beneficially entitled to the interest 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)* at the time of issue of the Notes, the Issuer was not in possession, or aware, of any information which could reasonably be taken to indicate whether or not the interest or other distribution would be subject to tax, without any reduction computed by reference to the amount of such interest or other distribution, in a relevant territory which corresponds to income tax or corporation tax in Ireland and which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory.

So long as the Notes continue to be quoted on the London Stock Exchange, are held in Euroclear and/or Clearstream, Luxembourg, and the condition set out in paragraph (c) above is met, interest on the Notes can be paid by any paying agent acting on behalf of the Issuer 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 the conditions set out in paragraph (c) above are met.

#### *Encashment Tax*

In certain circumstances, 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 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. First, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the Taxes Consolidation Act, 1997 ("**TCA**"), the recipient is not resident in Ireland and is resident in a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty ("**Relevant Territory**") and the interest is paid out of the assets of the Issuer. Second, interest payments made by the Issuer 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 and which tax corresponds to income tax or corporation tax in Ireland, 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 in to force once all ratification procedures have been completed. Third, interest paid by the Issuer 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 not resident in Ireland 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 not resident in Ireland where the principal class of shares of the company 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 Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade in Ireland through a branch or agency in respect of which the Notes were used or held.

### *Capital Acquisitions Tax*

A gift or inheritance comprising 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 disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer 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 Stamp Duties Consolidation Act, 1999 so long as the Issuer 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 the Issuer'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 neither the Issuer nor the Guarantor is or will become UK incorporated or UK resident or acts through a permanent establishment in the UK in relation to the Notes. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who hold their Notes as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable) and are the absolute beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders.

### Interest on the Notes

In general, tax at the basic rate of income tax (currently 20 per cent.) is required to be withheld from payments of UK source interest. Payments of interest on the Notes by the Issuer may be made without deduction or withholding on account of UK income tax provided that such interest does not have a UK source.

If payments of interest have a UK source they may still be made by the Issuer without deduction of or withholding on account of UK income tax while the Notes 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.

In all other cases, if the interest were to be treated as having a UK source it may be subject to UK withholding tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by HM Revenue and Customs under an applicable double taxation treaty, and except that the withholding obligation is disapplied in respect of payments to Noteholders who the Issuer reasonably believes are either a UK resident company or a non-UK resident company carrying on a trade in the UK through a permanent establishment to which the payment is attributable, or fall within various categories enjoying a special tax status (including charities and certain pension funds), or are partnerships consisting of such persons (unless HM Revenue and Customs direct otherwise).

### Payments by Guarantor

If payments by the Guarantor under the Guarantee were not treated as arising in the UK they should not be subject to UK withholding tax. If this were not the case then, depending on the correct legal analysis of the payments as a matter of UK tax law (which is uncertain), it is possible that any payments by the Guarantor would be subject to UK withholding tax at the basic rate (currently 20 per cent.), subject to any claim which could be made under applicable double tax treaties and except that any withholding may be disapplied in respect of payments to recipients who the Guarantor reasonably believes are either a UK resident company or a non-UK resident company carrying on a trade in the UK through a permanent establishment to which the payment is attributable, or fall within various categories enjoying a special tax status (including charities and certain pension funds), or are partnerships consisting of such persons (unless HM Revenue and Customs direct otherwise).

### Information Reporting

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

### Stamp duty and Stamp Duty Reserve Tax (SDRT)

No UK SDRT is payable in the UK on the issue, transfer (or any agreement to transfer) or redemption of the Notes. No UK stamp duty is payable in the UK on the issue or redemption of the Notes, nor on the transfer of any Notes through the clearing systems otherwise than by way of written instrument. Noteholders should seek their own advice on whether any transfer of Notes in definitive form by way of written instrument would be subject to UK stamp duty.

## The Savings Directive

Under the Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Austria will instead operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other non-EU countries). A number of non-EU countries and territories have adopted similar measures to the Savings Directive and certain dependent or associated territories of certain EU Member States have adopted the same measures.

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

The Issuer, or any person or agent acting on behalf of the Issuer, shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in the Savings Directive and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer, or any person acting on behalf of the Issuer, to the relevant tax authorities.

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

## Financial Transaction Tax

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transaction tax (the "**FTT**") in certain participating EU Member States. The proposed FTT has very broad scope and could, if introduced, apply to certain dealings in financial instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

A joint statement issued in May 2014 by the participating EU Member States (other than Slovenia) indicated an intention to implement the FTT progressively, such that it would initially apply to transactions involving shares and certain derivatives, with this initial implementation occurring by 1 January 2016. However, full details are not available. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The proposed FTT remains subject to negotiation between the participating EU Member States and the timing remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## Gross-Up

The attention of prospective investors in the Notes is drawn to Condition 9 (*Taxation*) of the Conditions.

# GENERAL INFORMATION

## General

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Regulated Market will be granted on or around 26 January 2015, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the second working day after the day of the transaction. The expenses in connection with the admission to trading of the Notes are expected to amount to £4,200.

2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in Ireland, the Cayman Islands and the United Kingdom, respectively, in connection with the issue and performance of the Notes and the Guarantee. The issue of the Notes was authorised by resolutions of the board of directors of the Issuer passed on 10 December 2014 and 6 January 2015 and the giving of the Guarantee by the Guarantor was authorised by a resolution of the board of directors of the Guarantor passed on 27 November 2014.

3. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 117159329. The International Securities Identification Number (ISIN) for the Notes is XS1171593293.

4. The yield to maturity of the Notes is 6.627 per cent. per annum, calculated on an annual basis. The yield is calculated as at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

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.

## No Significant Change and No Material Adverse Change

5. Since the date of incorporation of the Issuer, there has been (i) no significant change in the financial or trading position of the Issuer, save for the issue of the Senior Bonds, drawdown under the Facilities Agreement, the proposed issue of the Notes and the related inter-group loans, and (ii) no material adverse change in the prospects of the Issuer.

6. Since 30 June 2014, other than (i) the Divestment and (ii) the debt refinancing described in the sub-section of "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" entitled "*Equity raise and debt refinancing*" on page 67 of this Prospectus, there has been no significant change in the financial or trading position of the Guarantor and its subsidiaries.

7. Since 31 December 2013, there has been no material adverse change in the prospects of the Guarantor and its subsidiaries.

## Material Contracts of the Issuer

8. The following contracts (not being contracts entered into in the ordinary course of business) are contracts which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

    **(a) Senior Bonds**

For a description of the Senior Bonds, see "*Description of Certain Other Indebtedness – The Senior Bonds*".

**(b) Facilities Agreement**

For a description of the Facilities Agreement, see "*Description of Certain Other Indebtedness—The Facilities Agreement*".

## Material Contracts of the Guarantor

9. The following contracts (not being contracts entered into in the ordinary course of business) are contracts which could result in any member of the Group being under an obligation or entitlement that is material to the Guarantor's ability to meet its obligations under the Guarantee.

**(a) Senior Bonds**

For a description of the Senior Bonds, see "*Description of Certain Other Indebtedness – The Senior Bonds*".

**(b) Facilities Agreement**

For a description of the Facilities Agreement, see "*Description of Certain Other Indebtedness—The Facilities Agreement*".

**(c) Implementation and Relationship Agreement Deed of Termination ("Deed of Termination")**

On 23 July 2014, the Guarantor entered into the Deed of Termination with the Lender Shareholders. The Deed of Termination terminated certain obligations that existed under the Lenders' Relationship Agreement and the Implementation Agreement. The obligations that survive, as set out in the Deed of Termination are that:

(i) the Guarantor has provided certain pre-emptive rights to the Lender Shareholders in relation to certain shares held by them in connection with future offers of Ordinary Shares for cash; and

(ii) the Guarantor has agreed not to declare, pay or make any capital distributions (as defined in the Deed of Termination and excluding any dividends payable out of distributable profits arising from ordinary course trading revenues of the Group) without the prior consent of a majority (by loan amount) of Lender Shareholders for so long as any Lender Warrants remain outstanding. The undertaking does not apply to any capital distribution which PGH makes following the sale of all or substantially all of the Group's assets.

From the first date on which there are no Lender Shareholders these obligations terminate under the Deed of Termination

**(d) Pearl Group Staff Pension Scheme Agreement**

On 27 November 2012, PGH2 entered into an agreement with the trustee of the Pearl Group Staff Pension Scheme which sets out an agreed contractual framework for contributions to the Pearl Group Staff Pension Scheme (the "**2012 Pensions Agreement**"), which replaces a previous funding agreement dated 26 June 2009 (the "**2009 Pensions Agreement**").

Under the 2012 Pensions Agreement:

- PGH2 will make certain specific payments to the Pearl Group Staff Pension Scheme. The first contribution of £72 million was paid in September 2013 and a further contribution of £68 million was paid on 30 September 2014. The remaining payments are £40 million to the scheme on 30 September of each year from 2015 until 2021. 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. The deficit on the technical provisions basis as at 30 June 2012 was £480 million and the Gilts Based Deficit as at 30 June 2012 was £842 million.

- There is a sharing mechanism that, in certain circumstances, allows for an acceleration of the contributions to be paid to the Pearl Group Staff Pension 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.

- PGH2 has agreed that two covenant tests shall be maintained:

    - PGH2's embedded value (excluding any interest in Impala) will be maintained at greater than the higher of:

        (1) 1.3 times the lower of £600 million and 100 per cent. of the Gilts Based Deficit; and

        (2) the Gilts Based Deficit less 50 per cent. of the projected investment outperformance over gilts to 30 June 2031.

        If this test is not met, restrictions on debt and dividend payments by PGH2 and its subsidiaries will apply; and

    - PGH2's embedded value shall be greater than the scheme deficit, where liabilities are discounted at the aggregate of gilts plus 0.3 per cent. per annum in 2013 stepping down each year, on a linear basis, to gilts flat per annum in 2016 and later.

        If this test is not met, PGH2 is restricted from making payments of greater than £58 million that reduce its embedded value where those payments are used to fund its shareholder dividends.

    The "**Gilts Based Deficit**" for the purposes of the 2012 Pensions Agreement is the scheme deficit calculated on a basis linked to UK government securities.

    Failure to maintain the embedded value ratios does not automatically entitle the trustees to exercise their security unless the ratio of PGH2's embedded value to the value of the trustee's security claim falls below 1.05:1 for two consecutive months and is not cured. Elements of the covenant tests and triggered payments will no longer apply if the trustees cease to follow the new investment strategy.

- Charges over the shares of Phoenix Life Assurance Limited, NPLL, PGS and PGS2 Limited that were granted to the trustee of the Pearl Group Staff Pension Scheme under the 2009 Pensions Agreement remain in place. The value of the security claim granted under the share charges is the lower of £600 million and 100 per cent. of the Gilts Based

Deficit revalued every three years. The value of the security claim granted under the share charges will change to the lower of £600 million and 60 per cent. of the Gilts Based Deficit if the trustees breach the new investment strategy.

- The occurrence of certain events will entitle the trustee of the Pearl Group Staff Pension Scheme to enforce its security under the share charges described above. These events include PGH2 failing to comply with certain provisions of the 2012 Pensions Agreement including without limitation to pay amounts when due, failing to meet the embedded value ratio test and customary events in connection with such security documents. Enforcement action by the trustee of the Pearl Group Staff Pension Scheme would be an event of default under the Facilities Agreement. These security arrangements also include certain restrictions on transfer, including to other parts of the Group.

The agreement reached in the 2012 Pensions Agreement is subject to the statutory funding regime in the Pensions Act 2004.

**(e) PGL Pension Scheme Guarantees**

Pearl Life Holdings Limited 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 30 September 2014 the principal obligations that are subject to the guarantee are cash contributions totalling £44 million over the period to August 2017. The performance of Pearl Life Holdings Limited under the guarantee has been guaranteed by PGH1.

**(f) Tier 1 Bonds**

On 15 November 2005, PGH1 issued a series of £500 million 6.5864 per cent. fixed/floating rate perpetual reset capital securities (the "**Tier 1 Bonds**"). The Tier 1 Bonds are listed on the Official List and are admitted to trading on the Regulated Market. The Tier 1 Bonds are unsecured obligations of PGH1 and are subordinate to the claims of senior creditors. Payment in respect of the Tier 1 Bonds is conditional on PGH1 being solvent at the time of payment and immediately following such payment and also, in respect of coupon payments, having sufficient distributable reserves.

The Tier 1 Bonds have no fixed maturity date and coupon payments may be deferred at the option of PGH1 and accordingly the Tier 1 Bonds meet the definition of equity for financial reporting purposes. Upon issue, the Tier 1 Bonds also met the conditions for Innovative Tier 1 capital treatment in the calculation of group capital resources under the then FSA's rules.

The Tier 1 Bonds may be redeemed (in their entirety but not in part) at par at the option of PGH1 on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to PRA consent and notification requirements having been met and is conditional on all deferred coupon payments being satisfied in full. In certain circumstances, PGH1 has the right to substitute the Tier 1 Bonds or to redeem the Tier 1 Bonds before the first reset date.

Coupons are payable annually in arrear on 25 April each year at the rate of 6.5864 per cent. per annum, until the first reset date. Thereafter, coupons are payable semi-annually at 2.73 per cent. per annum over the then prevailing offered rate for six month sterling deposits.

On 25 March 2009, PGH1 announced that it was deferring the coupon payment on the Tier 1 Bonds of approximately £33 million, which would otherwise have been due for payment on 25

April 2009. On 23 March 2010, PGH1 announced its intention to defer the coupon payment due to be made on 25 April 2010.

The Tier 1 Bonds stipulated that if PGH1 opts to defer a coupon payment, the deferred coupon payment may only be satisfied through the alternative coupon satisfaction mechanism (the "**ACSM**"). For so long as a deferred coupon payment has not been satisfied, PGH1 may not declare, pay or distribute a dividend on its securities in issue ranking junior to, or at the same level as, the Tier 1 Bonds or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Tier 1 Bonds (the "**Dividend and Capital Restriction**").

On 22 April 2010, at a meeting of the holders of the Tier 1 Bonds a special resolution was passed which made certain amendments to the terms of the Tier 1 Bonds including (a) amending the ACSM so that it operates at both the level of PGH1 and the Guarantor (b) amending the Dividend and Capital Restriction so that it operates at both the level of PGH1 and the Guarantor, (c) including a carve out to the Dividend and Capital Restriction to allow certain dividend payments in 2010 by the Guarantor to its shareholders, (d) the *pro rata* reduction of the outstanding principal amount of the Tier 1 Bonds (by application of a pool factor of 0.85) from £500,000,000 to £425,000,000 and (e) incorporating an undertaking from PGH1 and the Group to operate the ACSM in respect of the 2009 deferred coupon so that it conclude no later than 31 December 2010. Following the passing of the special resolution on 22 April 2010, PGH1 revoked the notification dated 23 March 2010 by which it had elected to defer the 2010 coupon payment and the 2010 coupon was paid on 26 April 2010.

In order to retain the same level of regulatory capital PGH1 entered into a balancing instrument under which notes with a principal amount of £75,000,000 (being equal to the amount of the reduction in principal amount of the Tier 1 Bonds) were issued to the Guarantor. The terms of such notes are substantially the same as the terms of the Tier 1 Bonds but they are subordinated in a winding-up to payment of claims under the Tier 1 Bonds.

On 22 October 2010, the Guarantor implemented a placing in connection with the operation of the ACSM in respect of the 2009 deferred coupon on the Tier 1 Bonds. The Guarantor issued 5,020,000 new Ordinary Shares on 27 October 2010 and the 2009 deferred coupon was paid in full on 18 November 2010. The 2011, 2012, 2013 and 2014 coupons have been settled in full other than to certain members of the Group that hold Tier 1 Bonds.

As at 31 December 2013, the market value of the Tier 1 Bonds recognised in the Group's MCEV was £377 million, compared with a market value of £286 million as at 31 December 2012.

On the Issue Date, £492,617,000 (prior to application of the pool factor of 0.85) in aggregate principal amount of the Tier 1 Bonds will be exchanged by the Group for the Notes or for cash pursuant to an exchange offer. As at the Issue Date, subsidiaries of PGH, which have their own independent investment strategies, will hold £31,920,000 in aggregate principal amount of the Notes.

**(g) PLL Tier 2 Bonds**

In July 2001, Scottish Mutual Assurance Limited (which was then known as Scottish Mutual Assurance plc) issued £200 million 7.25 per cent. undated, unsecured subordinated notes (the "**PLL Tier 2 Bonds**"). 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 GENPRU as they apply to PLL.

**(h) 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 on Completion of the Divestment. Completion of the Divestment occurred on 1 July 2014. A payment of £5.5 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 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 Life Companies (and Opal Reassurance Limited) and 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 Investment Management Agreements between the Life Companies (and Opal Reassurance Limited) and Ignis 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 Divestment Agreement, Impala has agreed to a Purchase Price Adjustment for a period of 10 years if a Life Company withdraws assets from management by Ignis Asset Management or any of its subsidiaries under an Investment Management Agreement, subject to certain exceptions.

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 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.

The Group has the potential to generate value from future closed life fund acquisitions through a Synergy Sharing Agreement agreed between the Group, Impala and Standard Life Investments. Subject to the terms and conditions of the Synergy Sharing Agreement, Standard Life Investments will pay to Impala, on an annual basis, an agreed proportion of base management fees related to the future management by Standard Life Investments of certain additional assets of the Group. This revenue sharing arrangement is linked to the quantum of additional assets that are transferred by the Group to the management of Standard Life Investments and which are not already under management of Ignis Asset Management as at the date of the Synergy Sharing Agreement.

## Documents available for Inspection

10. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Group at Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU:

(a) the Agency Agreement and Trust Deed (which includes the form of the Global Notes Certificate);

(b) the Memorandum and Articles of Association of the Issuer and the Guarantor;

(c) the 2014 Q3 Interim Management Statement, the 2014 Half Year Report and Accounts, the 2013 Annual Report, the 2012 Annual Report and the 2011 Annual Report; and

(d) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus in relation to the Notes.

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

## Auditors

11. Ernst & Young Accountants LLP of Wassenaarseweg 80, 2596 CZ The Hague, The Netherlands, which is licensed by the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) to carry out statutory audits, have audited and rendered unqualified audit reports on, the accounts of the Guarantor for each of the three years ended 31 December 2013. Ernst & Young LLP of 1 More London Place, London, SE1 2AF, United Kingdom have reviewed and issued a review report on the Guarantor's unaudited consolidated interim financial statements for the half year ended 30 June 2014.

## Litigation

12. Save as disclosed in paragraphs (a) and (b) below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Guarantor or any other member of the Group is aware), during the 12 month period 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 (i) the Issuer, (ii) the Guarantor or (iii) the Group taken as a whole.

**(a) Acquisition of the Allianz Cornhill long-term business**

On 13 November 2014, HMRC advised the Group of its intention to settle in relation to Britannic Finance Limited ("**BFL**") in connection with the tax treatment of the acquisition by members of the Group of the life insurance business of Allianz Cornhill Insurance plc in 2004. Additional tax of approximately £23 million (plus interest) on BFL has been paid to HMRC to close the matter with HMRC.

**(b) HMRC Requests for Further Information**

As part of their fact-find enquiry into a number of the Group's tax returns, HMRC requested further information regarding an intra-group reassurance agreement between the Life Companies, which are tax resident in the UK, and Opal Reassurance Limited, which is tax resident in Bermuda, and certain aspects of the Group's internal financing arrangements; in particular, details about the financial restructuring that took place in 2008 and 2009. The information has been provided to HMRC and the Group is currently waiting on a response from HMRC.

As at the date of this Prospectus, no assessments of tax have been issued by HMRC in respect of these issues. The Group currently expects that a number of the enquiries raised by HMRC will be resolved without a tax assessment being issued against the Group. As at the date of this Prospectus the Group is unable to estimate with certainty the potential financial impact of these matters.

## DEFINITIONS

The following definitions apply throughout this Prospectus unless the context otherwise admits, save that capitalised terms used in the section of this Prospectus headed "*Terms and Conditions of the Notes*" have the meanings given therein.

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| "**2009 Pensions Agreement**" | means the agreement dated 2 September 2009 between PGH2 and the trustees of the Pearl Group Staff Pension Scheme. |
| "**2012 Pensions Agreement**" | means the agreement dated 27 November 2012 between PGH2 and the trustees of the Pearl Group Staff Pension Scheme. |
| "**Acquired OPB Companies**" | means LCA, LCB, TC1, TC2 and Opal Re. |
| "**ACSM**" | means the alternative coupon satisfaction mechanism. |
| "**Annual General Meeting**" or "**AGM**" | means the Guarantor's annual general meeting. |
| "**Arrears of Interest**" | means any interest which is deferred and remains unpaid. |
| "**Arrow**" | means Advanced Risk Responsive Operating Framework. |
| "**Audit Committee**" | means the audit committee of the board. |
| "**Audited Financial Statements**" | means the 2013 Annual Report, 2012 Annual Report and the 2011 Annual Report. |
| "**BAGI**" | means BA(GI) Limited. |
| "**Bermuda Insurance Act**" | means the Insurance Act 1978 of Bermuda. |
| "**BFL**" | means Britannic Finance Limited. |
| "**BMA**" | means the Bermuda Monetary Authority. |
| "**Board**" or "**Board of Directors**" | means the board of directors of the Guarantor. |
| "**Business Day**" | has the meaning given to it in the Conditions. |
| "**Capital Disqualification Event**" | has the meaning given to it in the Conditions. |
| "**Certificates**" | means individual certificates evidencing holdings of Notes. |
| "**CFO Forum**" | means the European Insurance CFO Forum. |
| "**Change of Control**" | means a person ("**A**") will be treated as increasing (or decreasing) his control over an authorised firm ("**B**") (a "**Change of Control**"), requiring prior approval from the FCA (and PRA, if appropriate) if, as defined in FSMA:<br>i. the level of his percentage shareholding or voting power in B (or a parent undertaking of B ("**P**")) crosses the 10 per cent., 20 per cent., 30 per cent. or 50 per cent threshold, or<br>ii. if A becomes a parent undertaking of B. |
| "**Class C BSCR**" | means Class C Bermuda Solvency Capital Requirement. |
| "**Clearstream, Luxembourg**" | means Clearstream Banking, *société anonyme*. |
| "**COMI**" | means the centre of main interest. |
| "**Companies Acts of Ireland**" | means the Companies Acts 1963-2013 of Ireland. |
| "**Companies Law**" | the Companies Law (as amended) of the Cayman Islands. |

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| "**Completion**" | means completion of the sale and purchase of the Shares in accordance with the provisions of the Divestment Agreement which occurred on 1 July 2014. |
| "**Condition**" | means, in respect of a numbered Condition, the relevant condition of the Notes set out under the "*Terms and Conditions of the Notes*". |
| "**controller**" | means a person ("**A**") will acquire control (in accordance with s.181 FSMA, and be a "controller") of an authorised person ("**B**") if they hold:<br>i. 10% or more of the shares in B or a parent undertaking of B ("**P**");<br>ii. 10% or more of the voting power in B or P; or<br>iii. 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.<br>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, if any, are aggregated. |
| "**CNHR**" | means cost of residual non-hedgeable risk. |
| "**Corresponding Payment**" | has the meaning given to it in the Conditions. |
| "**Directors**" | has the meaning given to it in the Conditions. |
| "**Disclosure and Transparency Rules**" | means the Disclosure and Transparency Rules as published under the FCA Handbook. |
| "**Dividend and Capital Restriction**" | means the restriction on PGH1 declaring, paying or distributing a dividend on its securities in issue ranking junior to, or at the same level as, the Tier 1 Bonds or, except in particular circumstances, redeeming, purchasing or otherwise acquiring any of its securities in issue ranking junior to the Tier 1 Bonds. |
| "**Divestment**" | means the divestment of Ignis Asset Management. |
| "**Divestment Agreement**" | means the agreement dated 25 March 2014 between the Guarantor, Impala and Standard Life Investments relating to the Divestment. |
| "**DPF**" | means discretionary participation features. |
| "**DTC**" | means The Depository Trust Company. |
| "**ECJ**" | means the European Court of Justice. |
| "**ECR**" | means the Enhanced Capital Requirement. |
| "**EEA**" | means the European Economic Area. |
| "**EIOPA**" | means the European Insurance and Occupational Pensions Authority. |
| "**established surplus**" | means the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation. |
| "**EU**" | means the member states of the European Union. |

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| "**Euroclear**" | means Euroclear Bank SA/NV. |
| "**Euronext Amsterdam**" | means Euronext Amsterdam by NYSE Euronext. |
| "**Executive Committee**" or "**ExCo**" | means the executive committee of PLHL that provides day-to-day direction. |
| "**Executive Directors**" | means the executive directors of the Guarantor, as set out in "*Management of the Guarantor*". |
| "**Facilities Agreement**" | means the 5 year £900 million unsecured bank facility at PGH Capital Limited. |
| "**FATCA**" | means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and US Treasury regulations promulgated thereunder. |
| "**FCA**" | means the Financial Conduct Authority (or any successor authority). |
| "**FCA Handbook**" | means the book of rules and guidance maintained by the FCA. |
| "**Fitch**" | means Fitch Ratings Ltd or, where the context requires, another ratings provider within the Fitch group. |
| "**FOS**" | means the UK Financial Ombudsman Service. |
| "**FSA**" or "**Financial Services Authority**" | means the Financial Services Authority prior to 1 April 2013. |
| "**FSA Handbook**" | means the book of rules and guidance, including as to regulatory capital requirements, maintained by the FSA up to 31 March 2013. |
| "**FSCS**" | means UK Financial Services Compensation Scheme. |
| "**FSMA**" | means the Financial Services and Markets Act 2000. |
| "**FTT**" | means financial transaction tax. |
| "**GAAP**" | means generally accepted accounting principles. |
| "**GAO**" | means guaranteed annuity option. |
| "**Gilts Based Deficit**" | means, for the purposes of the 2012 Pensions Agreement, the scheme deficit calculated on a basis linked to UK government securities. |
| "**Global Certificate**" | means the global certificate in registered form that will represent the Notes. |
| "**Group**" | means the Issuer, Guarantor and the Guarantor's consolidated subsidiaries. |
| "**Guaranteed Amounts**" | has the meaning given to it in the Conditions. |
| "**Guarantor**" | means Phoenix Group Holdings. |
| "**Guarantor Winding-Up**" | has the meaning given to it in the Conditions. |
| "**Guardian Assurance**" | means Guardian Assurance Limited. |

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| "**High Court**" | means the High Court of England and Wales. |
| "**HMRC**" | means HM Revenue and Customs. |
| "**HM Treasury**" | means Her Majesty's Treasury. |
| "**Holding Companies**" | means the Guarantor and Phoenix Life Holdings Limited, Pearl Group Holdings (No. 2) Limited, Impala Holdings Limited, Pearl Group Holdings (No. 1) Limited, PGH (TC1) Limited, PGH (TC2) Limited, PGH (MC1) Limited, PGH (MC2) Limited, PGH (LCA) Limited, PGH (LCB) Limited, PGH (LC1) Limited, PGH (LC2) Limited and Pearl Life Holdings Limited. |
| "**HSBC**" | means HSBC Bank plc. |
| "**IAS**" | means International Accounting Standard. |
| "**IASB**" | means International Accounting Standard Board. |
| "**ICA**" | means Individual Capital Assessment. |
| "**ICAS**" | means Individual Capital Adequacy Standards. |
| "**ICSDs**" | means both of Euroclear and Clearstream, Luxembourg. |
| "**IFRS**" | means International Financial Reporting Standards as adopted for use in the EU. |
| "**IGD**" | means the EU Insurance Groups Directive. |
| "**IGD Surplus**" | means the Group's IGD surplus and is a capital adequacy calculation which is carried out on a group-wide EU-directive-based "Pillar 1" basis which enables the FCA or PRA to assess both the level of insurance and financial risk within the Group and the resources available to cover this risk. |
| "**Ignis Investment Management**" | means Ignis Investment Management Limited. |
| "**Impala**" | means Impala Holdings Limited. |
| "**Impala Borrowers**" | means LC1 and LC2. |
| "**Impala Facility**" | means the credit facility made available pursuant to the Impala Facility Agreement as amended and restated. |
| "**Impala Facility Agreement**" | means the facility agreement dated 10 October 2007, as amended and restated, entered into with the Impala Borrowers, the lenders, the book runners, the arrangers and the security trustee described therein. |
| "**Implementation Agreement**" | means the implementation agreement entered into by the Guarantor, the Lender Shareholders and various other parties dated 27 June 2009, as amended. |
| "**INSPRU**" | means the "Prudential Sourcebook for Insurers", which forms part of the PRA Handbook. |
| "**Insurance Group**" | has the meaning given to it in the Conditions. |
| "**Insurance Group Borrower**" | has the meaning given to it in the Conditions. |
| "**Insurance Groups Directive**" | means the Directive on the Supplementary Supervision of |

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| | Insurance Companies in an Insurance Group (1998/78/EC). |
| “**Interest Payment Date**” | means 18 December in each year, commencing 18 December 2015. |
| “**Investment Grade Rating**” | means a rating assigned to the Guarantor or the Senior Bonds of at least BBB- (or the equivalent thereof) in the case of Fitch, a rating of at least Baa3 (or the equivalent thereof) in the case of Moody’s, a rating of at least BBB- (or the equivalent thereof) in the case of S&P (or if Moody’s, S&P or Fitch ceases to rate the Guarantor or the Senior Bonds for reasons outside the control of the Issuer or Guarantor, the equivalent rating in the case of any other Rating Agency that is established in the European Union and registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies). |
| “**Investment Management Agreement**” | means any agreement whereby a person serves or acts as investment manager, investment adviser or investment consultant to another person and receives compensation for so serving and shall include any agreement delegating such functions under another Investment Management Agreement to another person. |
| “**Investor’s Currency**” | means the currency unit in which the investor’s financial activities are principally denominated. |
| “**Issue Date**” | means the date of issue of the Notes, being 23 January 2015. |
| “**Issuer**” | means PGH Capital Limited. |
| “**Issuer Winding-Up**” | has the meaning given to it in the Conditions. |
| “**IT**” | means information technology. |
| “**LC1**” | means PGH (LC1) Limited (previously Sun Capital Investments No.2 Limited). |
| “**LC2**” | means PGH (LC2) Limited (previously Hera Investments No. 2 Limited). |
| “**LCA**” | means PGH (LCA) Limited (previously Sun Capital Investments Limited). |
| “**LCB**” | means PGH (LCB) Limited (previously Hera Investments One Limited). |
| “**Lender Shareholders**” | means Lenders under the Facilities Agreement who hold shares in PGH and who entered into the Lenders’ Relationship Agreement. |
| “**Lenders’ Relationship Agreement**” | means the relationship agreement entered into between the Guarantor and the Lender Shareholders on 27 June 2009, as amended. |
| “**Lender Warrants**” | means the Warrants issued to certain entities providing finance to the Group on 2 September 2009. |
| “**LIBOR**” | means the London Interbank Offered Rate. |

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| "**Life Companies**" | means Phoenix Life Limited, Phoenix Life Assurance, National Provident Life and Scottish Mutual International and "Life Company" means any one of them. |
| "**life company**" | means a life assurance company. |
| "**listed**" | means, in reference to the Notes, that they, have been admitted to the Official List and have been admitted to trading on the Market. |
| "**Listing Rules**" | means the Listing Rules under the FCA Handbook. |
| "**London Life**" | means London Life Limited. |
| "**London Stock Exchange**" | means the London Stock Exchange plc. |
| "**Long-Term Fund**" | means a long term insurance fund as defined by INSPRU 1.2.22, which is a fund where assets are separately identified and maintained to cover the liabilities arising from the long-term insurance contracts written within the fund. |
| "**Market**" | means the London Stock Exchange's Regulated Market. |
| "**Market Interest Rate**" | means the current interest rate on the capital market. |
| "**Maturity Date**" | means 18 December 2025. |
| "**MC1**" | means PGH (MC1) Limited (previously Suncap Parma Midco Limited). |
| "**MC2**" | means PGH (MC2) Limited (previously TDR Parma Midco Limited). |
| "**MCEV**" | means Market Consistent Embedded Value. |
| "**MCEV Principles**" | means the European Insurance CFO Forum Market Consistent Embedded Value Principles (Copyright© Stichting CFO Forum Foundation 2008). |
| "**MCR**" | means minimum capital requirement. |
| "**Member State**" | means a member state of European Economic Area. |
| "**MiFID**" | means the Markets in Financial Instruments Directive. |
| "**MiFID II**" | means the European Commission's proposed amendments to MiFID. |
| "**Moody's**" | means Moody's Investors Service Limited or, where the context requires, another ratings provider within the Moody's group. |
| "**MSM**" | means minimum solvency margin. |
| "**National Provident Life**" or "**NPLL**" | means National Provident Life Limited. |
| "**Newco**" | has the meaning given to it in the Conditions. |
| "**Newco Scheme**" | has the meaning given to it in the Conditions. |
| "**Non-Executive Directors**" | means the non-executive directors of the Guarantor, as set out in "*Management of the Guarantor*". |
| "**Notes"** | means the £428,113,000 6.625 per cent. Guaranteed Subordinated Notes due 2025 guaranteed by the Guarantor on a subordinated basis. |

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| "**Noteholder**" | has the meaning given to it in the Conditions. |
| "**NPI**" | means NPI Limited. |
| "**Och-Ziff Funds**" | means certain affiliated investment funds of Och-Ziff Capital Management Group. |
| "**Official List**" | means the Official List of the UK Listing Authority. |
| "**Omnibus II directive**" | means Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), as amended. |
| "**On-Sold Resolution Assets**" | means certain assets held by the Resolution Group transferred to Royal London. |
| "**Opal Re**" | means Opal Reassurance Limited. |
| "**Original Pearl Business**" | means the Acquired OPB Companies, together with their respective subsidiaries. |
| "**Original Pearl Life Companies**" | means Phoenix Life Assurance (formerly called Pearl Assurance Limited), London Life, National Provident Life and NPI Limited. |
| "**Ordinary Shares**" | means the ordinary shares with a nominal value of €0.0001 each in the share capital of the Guarantor (including, for the avoidance of doubt, depositary interests in respect of and representing on a one-for-one basis Ordinary Shares, if applicable). |
| "**Owners' tax**" | means the tax paid by the Group's life businesses on their profits. |
| "**Part VII transfer**" | means a court-sanctioned transfer of some or all of the insurance policies of one EEA insurer to one or more EEA insurers, where one EEA insurer is regulated in the UK, which is governed by Part VII of FSMA. |
| "**Pearl Borrowers**" | means LCA and LCB. |
| "**Pearl Facility**" | means the credit facility made available pursuant to the Pearl Facility Agreement. |
| "**Pearl Facility Agreement**" | means the facility agreement dated 15 November 2006 as amended and restated made between, among others, the Pearl Borrowers and the lender named therein. |
| "**Pearl Group Staff Pension Scheme**" | means the pension scheme covering the employees of the Group prior to the acquisition of the Resolution Group. |
| **"Pensions Regulator"** | means the UK Pensions Regulator as established under section 1 of the Pensions Act 2004. |
| **"Perpetual Securities"** | means the £500 million of perpetual reset capital securities |

which PGH1 has in issue.

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| "**PGH1**" | means Pearl Group Holdings (No. 1) Limited (previously Resolution). |
| "**PGH2**" | means Pearl Group Holdings (No. 2) Limited (previously Pearl Group Limited). |
| "**PGL Pension Scheme**" | means the pension scheme covering the employees of PGH1 and its subsidiaries. |
| "**PIF**" | means Personal Investment Firm. |
| "**PIK Facility**" | means the PIK facility agreement dated 10 October 2007 as amended and restated between MC2, MC1 and Royal London. |
| "**PIK Notes**" | means the PIK notes issued to Royal London pursuant to the PIK Notes Instrument. |
| "**PIK Notes Instrument**" | means a deed poll notes instrument dated 14 May 2008 as amended and restated executed by MC1 and MC2. |
| "**PGMS**" | means Pearl Group Management Services Limited. |
| "**PGMS Ireland**" | means Pearl Group Management Services (Ireland) Limited |
| "**PGS**" | means Pearl Group Services Limited. |
| "**Phoenix Life**" | means the Group's life assurance (including its management services operations) business segment. |
| "**Phoenix Life Assurance**" | means Phoenix Life Assurance Limited (formerly Pearl Assurance Limited) |
| "**Pillar 1**" | means:<br>(a) in relation to the current PRA Handbook, the capital resources requirement imposed on insurers pursuant to Chapters 1-5 of INSPRU; and<br>(b) in relation to Solvency II, the requirements concerning technical provisions, the solvency capital requirement, the minimum capital requirement, the selection and valuation of assets and the forms of eligible capital. |
| "**Pillar 2**" | means:<br>(a) in relation to the current PRA Handbook, the ICAS rules; and<br>(b) in relation to Solvency II, the requirements concerning supervisory reporting and the own risk and solvency assessment. |
| "**PLHL**" | means Phoenix Life Holdings Limited. |
| "**PLL**" | means Phoenix Life Limited. |
| "**PLL Tier 2 Bonds**" | means the £200 million 7.25 per cent. undated unsecured subordinated notes issued by Scottish Mutual Assurance Limited and subsequently transferred to Phoenix Life Limited. |
| "**Policyholder tax**" | means the tax paid by the Group's life businesses on policyholders' investment returns on certain products at |

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| | policyholder tax rates. |
| “**PPFM**” | means each set of Principles and Practices of Financial Management of the Guarantor as applicable in the context setting out how the Guarantor conducts its With-Profits Business in relation to specified groups of its with-profits policyholders, as amended and updated from time to time; |
| “**PRA**” | means the Prudential Regulation Authority (or any successor authority). |
| “**PRA Handbook**” | means the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA. |
| “**Premium Listing**” | means a premium listing under Chapter 6 of the Listing Rules. |
| “**Price Adjustment Period**” | means the period commencing on the date of Completion and ending on the day before the tenth anniversary of the date of Completion. |
| “**Principal Paying Agent**” | has the meaning given to it in the Conditions. |
| “**Prospectus**” | means this Prospectus dated 21 January 2015. |
| “**Prospectus Directive**” | means Directive 2003/71/EC. |
| “**Prospectus Rules**” | means the Prospectus Rules under the FCA Handbook. |
| “**Public Warrants**” | means warrants in respect of Ordinary Shares (including, for the avoidance of doubt, depositary interests in respect of and representing on a one-for-one basis Public Warrants, if applicable). |
| “**Purchase Price Adjustment**” | means the amounts payable by Impala to Standard Life Investments under the purchase price adjustment mechanism contained in the Divestment Agreement. |
| “**PVFP**” | means present value of future profits. |
| “**PVIF**” | means present value of in-force business. |
| “**Qualifying Securities**” | has the meaning given to it in the Conditions. |
| “**realistic basis firms**” | means insurers with with-profit liabilities of £500 million or more. |
| “**Registrar**” | has the meaning given to it in the Conditions. |
| “**Regulation S**” | means Regulation S under the Securities Act. |
| “**Regulatory Clearance Condition**” | has the meaning given to it in the Conditions. |
| “**Regulatory Deficiency Interest Deferral Date**” | has the meaning given to it in the Conditions. |
| “**Regulatory Deficiency Redemption Deferral Date**” | has the meaning given to it in the Conditions. |
| “**Regulatory Information Service**” | means one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information in respect of listed companies. |
| “**relevant minimum**” | has the meaning given to it in the Interim Prudential |

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| | Sourcebook for Insurers. |
| "**Relevant Securities**" | means any PGH Shares or securities which carry (directly or indirectly) rights of conversion into or exchange or subscription for PGH Shares or any options, warrants or other rights to subscribe for or purchase or otherwise acquire PGH Shares which are issued or granted after the date hereof subject to the exceptions set out in "*Material Contracts of the Guarantor"*. |
| "**Relevant Rules**" | has the meaning given to it in the Conditions. |
| "**Relevant Territory**" | has the meaning given to it in the "*Taxation*" section. |
| "**Remuneration Committee**" | means the remuneration committee of the Board. |
| "**Reset Date**" | has the meaning given to it in the Conditions. |
| "**Resolution**" | means Pearl Group Holdings (No. 1) Limited (formerly named Resolution plc). |
| "**Resolution Group**" | means Resolution and its subsidiaries and, where the context requires, includes the On-Sold Resolution Assets until, in each case, the date of their disposal. |
| "**Restructuring**" | means the acquisition by the Guarantor of the Acquired OPB Companies on 2 September 2009. |
| "**RMF**" | means Risk Management Framework. |
| "**Royal London**" | means The Royal London Mutual Insurance Society Limited. |
| "**Royal London Warrants**" | means the warrants issued to Royal London on 2 September 2009. |
| "**Savings Directive**" | means EC Council Directive 2003/48/EC on the taxation of savings income. |
| "**Scottish Mutual International**" | means Scottish Mutual International Limited. |
| "**SCR**" | means solvency capital requirement. |
| "**SDRT**" | means stamp duty reserve tax. |
| "**Securities Act**" | means the United States Securities Act of 1933, as amended. |
| "**Senior Bonds**" | means the £300 million senior unsecured 5.75 per cent. bond issued by PGH Capital Limited. |
| "**Senior Creditors of the Issuer**" | has the meaning given to it in the Conditions. |
| "**SOLPRU**" | means the proposed new prudential rulebook for insurers which would transpose the Solvency II Level 1 directive. |
| "**Solvency II**" | means the Solvency II Framework Directive 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. |
| "**Shareholders**" | means the holders of Ordinary Shares from time to time and "Shareholder" means any one of them (including, for the avoidance of doubt and unless the context indicates otherwise, |

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| | holders from time to time of depositary interests in respect of and representing on a one-for-one basis Ordinary Shares). |
| "**Shares**" | means the 1,000,000 ordinary shares of par value £1.00 each of the Issuer. |
| "**Solvency Condition**" | has the meaning given to it in the Conditions. |
| "**Solvency II Framework Directive**" | means the Directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC). |
| "**Subsidiary**" | has the meaning given to it in the Conditions. |
| "**Sun Capital**" | means Sun Capital Partners. |
| "**S&P**" | means Standard & Poor's Credit Market Services Europe Limited or, where the context requires, another ratings provider within the Standard & Poor's group. |
| "**Standard Life Investments**" | means Standard Life Investments (Holdings) Limited. |
| "**sterling**" or "**Sterling**" or "**£**" or "**pence**" or "**p**" | means the lawful currency of the United Kingdom. |
| "**Synergy Sharing Agreement**" | means the agreement between the Group, Impala and Standard Life Investments, described in more detail in "*Material Contracts of the Guarantor*" of this Prospectus. |
| "**TC1**" | means PGH (TC1) Limited (previously Suncap Parma Topco Limited). |
| "**TC2**" | means PGH (TC2) Limited (previously TDR Parma Topco Limited). |
| "**TCA**" | means the Taxes Consolidation Act, 1997. |
| "**TCF**" | means Treating Customers Fairly. |
| "**TCL**" | means target capital level. |
| "**TDR Capital**" | means TDR Capital Nominees Limited and its various related entities. |
| "**Tier 1 Bonds**" | means the £500,000,000 6.5864 per cent. fixed/floating rate perpetual reset capital securities dated 15 November 2005 issued by PGH1. |
| "**Tier 1 Capital**" and "**Tier 2 Capital**" | has the meaning given to it in the Conditions. |
| "**Tier 2 On-Loan**" | has the meaning given to it in the Conditions. |
| "**Transfer Agent**" | has the meaning given to it in the Conditions. |
| "**Trust Deed**" | has the meaning given to it in the Conditions. |
| "**Trustee**" | has the meaning given to it in the Conditions. |
| "**TVFOGs**" | means time value of financial options and guarantees. |
| "**UKCPT**" | means UK Commercial Property Trust. |
| "**UK Listing Authority**" | means the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of the admission to listing on the Official |

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| | List otherwise than in accordance with Part VI of FSMA. |
| "**United Kingdom**" or "**UK**" | the United Kingdom of Great Britain and Northern Ireland. |
| "**United States**" or "**US**" | the United States, its territories and possessions and any state of the United States and the District of Columbia. |
| "**unit linked products**" | means insurance products which are linked to the value of specific property or indices. |
| "**VAT**" | 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 UK or elsewhere. |
| "**VIF**" | means the value of in-force businesses. |
| "**With-Profits Business**" | means the business of an insurer (such as the Guarantor) that may affect the amount or value of the assets comprising a With-Profits Fund. |
| "**With-Profits Fund**" | means a separate long-term insurance fund, maintained within the Long-Term Fund, where with-profits policyholders are eligible to share in any surpluses arising. |
| "**WPICC**" | means the with-profit insurance capital component, being an additional capital requirement of with-profit funds. |

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