IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR TO ANY U.S. PERSON OTHER THAN AS PERMITTED BY REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to this preliminary prospectus (the "**Preliminary Prospectus**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Preliminary Prospectus. In accessing the Preliminary Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Preliminary Prospectus) and/or from any or all of the Joint Lead Managers (as defined below) as a result of such access.

THIS DOCUMENT IS IN PRELIMINARY FORM ONLY, IS NOT COMPLETE AND CONTAINS INFORMATION THAT IS SUBJECT TO COMPLETION AND CHANGE.

The document and the offer when made are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (as defined herein) ("**Qualified Investors**"). In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") and Qualified Investors falling within Article 49 of the Order, and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This document must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS (AS DEFINED IN THE PRELIMINARY PROSPECTUS) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE BONDS MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE PRELIMINARY PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS OR ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PRELIMINARY PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS REQUIREMENT MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE BONDS.

Confirmation of your Representation: In order to be eligible to view this Preliminary Prospectus or make an investment decision with respect to the Bonds, prospective investors must be located outside the United States and must not be U.S. persons (within the meaning of Regulation S under the Securities Act). This Preliminary Prospectus is being sent at your request and by accepting the e-mail and accessing this Preliminary Prospectus, you shall be deemed to have represented to PGH Capital Limited (the "**Issuer**") and to each of Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc and Lloyds Bank plc (together, the "**Joint Lead Managers**") that you are not a U.S. person; you are located outside the United States; if you are in the United Kingdom, you are a relevant person; if you are in any member state of the EEA other than the United Kingdom, you are a Qualified Investor; if you are acting as a financial intermediary (as that term is used in Article 3(2) of the Prospectus Directive), the securities acquired by you as a financial intermediary in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); you are outside of the UK or EEA (and the electronic mail addresses that you gave us and to which this document has been delivered are not located in such jurisdictions or the U.S.); or you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located. In addition, you consent to delivery of such Preliminary Prospectus by electronic transmission.

You are reminded that this Preliminary Prospectus has been delivered to you on the basis that you are a person into whose possession this Preliminary Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Preliminary Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of any of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager(s) or such affiliate, as the case may be, on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Preliminary Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful other than the specified Qualified Investors described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein. Recipients of this Preliminary Prospectus who intend to subscribe for or purchase the Bonds are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus to be made available to the public in due course.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Issuer and the Guarantor or the offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document.

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

This Preliminary Prospectus has been sent to you in an electronic form, you are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers or any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

PROSPECTUS DATED 3 JULY 2014

PHOENIX GROUP

PGH Capital Limited

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

£300,000,000
5.75 per cent. Guaranteed Bonds due 2021

guaranteed 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 £300,000,000 5.75 per cent. Guaranteed Bonds due 2021 (the "**Bonds**") will be issued on or around 7 July 2014 (the "**Issue Date**") by PGH Capital Limited, a company incorporated under the laws of Ireland (the "**Issuer**") and guaranteed by Phoenix Group Holdings (the "**Guarantee**" and the "**Guarantor**", respectively) and are subject to the terms and conditions of the Bonds (the "**Conditions**"). Interest on the Bonds is payable annually in arrear on 7 July in each year. Payments on the Bonds will be made without deduction for or on account of taxes of Ireland, Jersey or the Cayman Islands to the extent described under "*Terms and Conditions of the Bonds—Taxation*". It is expected that the Bonds will be issued on 7 July 2014.

Unless previously redeemed or purchased and cancelled, the Bonds will mature on 7 July 2021. The Bonds are subject to redemption in whole, at their principal amount, (together with interest accrued to but excluding the redemption date) at the option of the Issuer at any time in the event of certain changes affecting taxes of Ireland, Jersey or the Cayman Islands. See "*Terms and Conditions of the Bonds—Redemption and Purchase*". The Bonds are also subject to redemption at the option of the holders of the Bonds (the "**Bondholders**") in certain circumstances following a change of control of the Guarantor, as further described under "*Terms and Conditions of the Bonds—Redemption and Purchase—Rating Change of Control Put Option*".

The Bonds will constitute direct, senior, unconditional, unsubordinated and (subject to the provisions of Condition 6.1 (*Negative Pledge*)) unsecured obligations of the Issuer. See "*Terms and Conditions of the Bonds—Status*".

The Prospectus constitutes a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the "**Prospectus Directive**") as amended (which includes the amendments made by Directive 2010/73/EU (the "**2010 PD Amending Directive**") to the extent that such amendments have been implemented in any Member State of the European Economic Area which has implemented the Prospectus Directive ("**Relevant Member State**")).

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

The denomination of the Bonds shall be £100,000 and integral multiples of £1,000 in excess thereof.

The Bonds will be issued in registered form and represented by a global certificate (the "**Global Certificate**") which will be deposited with a common safekeeper (or its nominee) for, and registered in the name of a nominee of, Clearstream, Luxembourg and Euroclear. Definitive certificates evidencing holdings of Bond Certificates will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Bonds in Global Form*".

The Bonds will not be rated by any rating agency at the date of issue of the Bonds.

The Issuer, the Guarantor and the Guarantor's other Subsidiaries (as defined in the Conditions) will be subject to various covenants in the terms of the Bonds as described in Condition 6.1(a) (*Negative Pledge—No Suspension Event*), Condition 6.2 (*Leverage Covenant*) and Condition 6.3 (*Anti-layering*) of the Bonds for as long as the Bonds are not given an Investment Grade Rating (as defined in the Conditions). Where the Bonds are given an Investment Grade Rating and the Existing Bank Debt (as defined in the Conditions) has been repaid or refinanced by Indebtedness issued by the Issuer or the Guarantor, the covenants described in Condition 6.1(a) (*Negative Pledge—No Suspension Event*), Condition 6.2 (*Leverage Covenant*) and Condition 6.3 (*Anti-layering*) shall cease to apply. See in Condition 6.1(a) (*Negative Pledge—No Suspension Event*) and Condition 6.4 (*Suspension of Covenants*) of the Conditions for further detail.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" beginning on page 8 of this Prospectus.

Joint Lead Managers

Citigroup **HSBC**
J.P. Morgan Cazenove **Lloyds Bank**

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor and the Guarantor and its subsidiary undertakings taken as a whole (the "**Group**") and the Bonds which according to the particular nature of the Issuer, the Guarantor and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor. The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers (as defined in "*Subscription and Sale*" below) to subscribe or purchase, any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus, see "*Subscription and Sale*" below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Trustee or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if earlier, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers and the Trustee accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by each Joint Lead Manager or the Trustee or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Bonds. Each Joint Lead Manager and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Bonds and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons as defined in Regulation S under the Securities Act ("**Regulation S**").

Any investment in the Bonds 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 Bonds.

In connection with the issue of the Bonds, Lloyds Bank plc (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

The investment activities of certain investors are subject to 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 Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

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 8 to 37 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, contained in the 2014 Q1 Interim Management Statement, 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 Bonds or the relevant information is included elsewhere in this Prospectus.

Copies of the 2014 Q1 Interim Management Statement, 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.

Reference Document	Information incorporated by reference	Page number in the reference document
2014 Q1 Interim Management Statement	Financial and operational highlights in the three months to 31 March 2014	1
	Financial overview (including the sub-sections "Cash generation", "Capital", "Phoenix Life Free Surplus", "IGD", "PLHL ICA", "Ignis" and "Financial targets")	2 - 3
	Regulatory Update	3
	Notes	4
2013 Annual Report	The discussion and analysis for the financial year ended 31 December 2013 contained in the "*Financial Performance*" section	24 - 44
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2012 Annual Report	The discussion and analysis for the financial year ended 31 December 2012 contained in the "*Business review*" section (excluding the "*Risk management*" subsections)	18 - 37
	Independent Auditor's report	85
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2011 Annual Report	The discussion and analysis for the financial year ended 31 December 2011 contained in the "*Business review*" section (excluding the "*Risk management*" subsections)	18 - 37
	Independent Auditor's report	85
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RISK FACTORS

The Bonds and any investment in the Issuer and the Guarantor is subject to a number of risks. Accordingly, Bondholders and prospective Bondholders should consider carefully all of the information set out in this Prospectus and all of the information incorporated by reference into this Prospectus, including, in particular, the risks described below, prior to making any investment decision. The risks described below are considered to be material by the Issuer and the Guarantor and are based on information known at the date of this Prospectus, but may not be the only risks to which the Group is exposed. Additional risks and uncertainties, which are currently unknown to the Group or that the Group does not currently consider to be material, may also have a material adverse effect on the business, results of operations and financial condition of the Group and could negatively affect the value of the Bonds.

If any of the following or other risks were to occur, the business, results of operations and financial condition of the Group could be materially adversely affected and the value of the Bonds could decline and Bondholders could lose all or part of the value of their investment. Bondholders and prospective Bondholders should consider carefully whether an investment in the Issuer and the Guarantor is suitable for them in light of the information set out in this Prospectus, the information incorporated by reference into this Prospectus and their own personal circumstances. Furthermore, Bondholders and prospective Bondholders should consult their financial, legal and tax advisers to carefully review the risks associated with an investment in the Bonds.

1. Risks Related to the Group

1.1 ***The Group's Holding Companies are dependent upon distributions from 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 Group's Holding Companies, to meet its payment obligations or may suffer a loss in value.***

The Group's insurance operations are conducted through subsidiaries. The Group's Holding Companies ultimately rely on distributions and other payments from 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 Group's Holding Companies' principal sources of funds are dividends, inter-company loans from subsidiaries, repayment of inter-company loans that have been made by the Group's 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 Group's 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.

The Group has ongoing principal repayment and interest payment obligations in respect of two separate credit facilities (being the Pearl Facility and the Impala Facility, which are described in "*Description of Certain Other Indebtedness—Credit Facilities*") 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 Group's 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 to cause indebtedness to become immediately due and payable and the exercise by the external finance providers of their security rights over shares in Group companies. In addition, the Group is subject to restrictions on dividends and other cash flows around the Group and on acquisitions and divestments by the Group under the terms of its main credit facilities. For further information on the restrictions placed on the Group under these credit facilities, see "*Description of Certain Other Indebtedness—Credit Facilities*".

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

1.2 ***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 two main credit facilities as at 31 December 2013 was £1,532 million, of which the Impala Facility amounted to £1,182 million and the Pearl Facility amounted to £350 million. The cash flows emerging from the Group's subsidiaries during the period to maturity of the Bonds and these 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 Bonds, or the Group may be unable to refinance those obligations at all. More information on the Group's credit facilities, including the covenants which impose limitations on its ability to undertake certain actions including restrictions on distributions to the Issuer and Guarantor, are detailed in: "*Description of Certain Other Indebtedness—Credit Facilities*".

The Group's level of indebtedness, restrictions on the Group under the terms of its credit facilities, and the "silo" structure of the Group's debt, whereby it has two separate credit facilities relating to separate groups of entities in the Group, 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 debt, thus reducing funds available for distribution to Bondholders 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;
- restricting the Group's ability to exploit certain business opportunities, including moving subsidiaries between the groups of entities to which the credit facilities relate;
- 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, whether due to a refinancing of the Group's existing debt or otherwise.

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.

1.3 ***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, including the Bonds, 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 Bonds 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 Bonds 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. No assurance can be given that if the Bonds were to be accelerated, the assets of the Group would be sufficient to generate the funds necessary to repay the Bonds, in full satisfaction of its obligations under the Bonds.

1.4 ***The Group may have to retain more regulatory capital as a result of fluctuations in investment markets or stricter regulatory capital requirements 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.***

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 Framework Overview—Additional Regulation of Insurance Business—New EU solvency framework equivalence consideration*".

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 at the ultimate insurance parent undertaking within the EEA. The Group is required to perform its IGD calculation and its PLHL ICA 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 31 December 2013, the Group's IGD surplus was estimated to be £1.2 billion, £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 £0.5 billion as at 31 December 2013, £0.6 billion as at 31 December 2012, and £0.4 billion at 31 December 2011. As at 31 March 2014, the surplus over the Group's IGD capital policy was estimated to be £0.5 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 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 Group's 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 31 December 2013, the Group's PLHL ICA surplus was £1.2 billion, compared with £1.0 billion as at 31 December 2012. As at 31 March 2014, the Group's PLHL ICA surplus was £1.3 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 Bonds.

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 or to pay dividends to which in turn, could affect the ability of the Issuer to pay interest or principal under the Bonds.

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 PRA's Policy Statement PS 09/19, may have a material impact on both service companies and as a result, the wider Group. An inability to meet the Group's regulatory capital requirements in the longer term could lead to intervention by the FCA, 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 Bondholders.

1.5 ***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 have been proposed 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 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 Bonds.

1.6 ***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) 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 95 per cent. of the Group's assets. On Completion of the Divestment, 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 or any other Standard Life Investments group asset manager. 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.

1.7 ***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 to meet obligations. 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.

1.8 ***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 annuitants 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 the Group's defined benefit pension schemes may also increase. Conversely, increased mortality, or higher mortality rates, increases death claims on term-insurance products.

The Group's 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 Group's 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 Group's 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 Bonds 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 Group's 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.

1.9 ***In times of extreme or prolonged market turbulence, the Group's 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 31 December 2013, 52 per cent. of the funds of the Group's Life Companies were invested in government, supranational, corporate debt and other fixed income securities, 16 per cent. of the funds of the Group's Life Companies were invested in cash and cash equivalents, 25 per cent. of the funds of the Group's Life Companies were invested in equity securities, 3 per cent. of the funds of the Group's Life Companies were directly invested in property, 3 per cent. of the funds of the Group's 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 Group's 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 Group's 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.

1.10 ***Competition, regulatory restrictions, the level of the Group's indebtedness 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 finance 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 internal 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, including the Group's level of indebtedness, 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.

1.11 ***The Divestment of Ignis Asset Management may expose the Group to purchase price adjustments and other costs or claims.***

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 has announced that Completion of the Divestment occurred on 1 July 2014. The Divestment Agreement contains certain warranties and indemnities in favour of 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. 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 acquires 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.

As part of the Divestment, Impala has agreed to a purchase price adjustment in the event that assets held by the Group's 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 Group's 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.

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 Impala silo. 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.

1.12 ***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 these credit facilities, see "*Description of Certain Other Indebtedness—Credit Facilities*". 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.

1.13 ***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 Group's Life Companies being required to meet obligations to policyholders and regulatory capital requirements and could restrict the ability of the Group's 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 Bonds 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 Framework Overview—Regulation Applicable to the Group's Insurance and Asset Management Businesses—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.

1.14 ***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 31 December 2013, 52 per cent. of the funds of the Group's Life Companies were invested in government, supranational, corporate debt and other fixed income securities, 16 per cent. of the funds of the Group's Life Companies were invested in cash and cash equivalents, 25 per cent. of the funds of the Group's Life Companies were invested in equity securities, 3 per cent. of the funds of the Group's Life Companies were directly invested in property, 3 per cent. of the funds of the Group's 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 Group's Life Companies being retained or shareholder capital available within the Group being required to be injected into the Group's 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.

1.15 ***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.

As at 31 December 2013, the Group had bank debt outstanding, through its two main credit facilities, with a principal amount of £1,532 million, all of which bears floating rates 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 Group's 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.

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

Certain of the Group's companies have exposure to financial assets that are not denominated in pounds 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 pounds 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 pounds sterling. Foreign currency amounts are translated into pounds sterling at the applicable exchange rates for inclusion in the Group's consolidated financial statements. The exchange rate between these currencies and pounds sterling can fluctuate substantially.

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

1.17 ***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.

1.18 ***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 31 December 2013, the Group held 62 per cent. of its financial assets and investment property at fair value as debt securities, 20 per cent. of its financial assets and investment property at fair value as equity securities, 11 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 4 per cent. of its financial assets and investment property at fair value as derivatives, in its consolidated financial statements. 7 per cent. of the Group's financial assets and investment property carried at fair value were held as "Level 3 financial instruments" as at 31 December 2013, which is the category that, under IFRS, relies the most on management estimates. As at 31 December 2013, the Group had derivative assets of £1,948 million and derivative liabilities of £2,156 million, of which no assets and 1 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.

1.19 ***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 Group's 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.

1.20 ***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 Group's 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.

1.21 ***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 Group's 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 Group's 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 insurance 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 reinsurances 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. In addition, many of the larger reinsurance assets cover business which, as part of the relevant reinsurance arrangement, is managed and administered entirely by the reinsurer, with little ability of the reinsured company to influence the management thereof.

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.

1.22 ***Various new reforms to the legislation and regulation relating to the UK life insurance industry have been proposed that could adversely affect the Group.***

The European Commission is continuing to develop the new Solvency II prudential framework for insurance companies. This framework will update, among other things, the existing EU life, non-life, reinsurance and insurance groups directives. The scope of the Solvency II project is wider than Basel 2. It will contain rules, many of which are new. For further discussion of Solvency II, see "*Regulatory Framework Overview—Additional Regulation of Insurance Business—New EU solvency framework equivalence consideration*".

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 are currently in the process of promulgation by way of a new directive known as the Omnibus II directive. The vote of the European Parliament on the final version of the Omnibus II directive took place in March 2014. This is expected to lead to a final text, which will enable guidance at level 3 of the regulatory rule-making process and consultation on more detailed level 2 rules and non-binding standards.

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 Consultation Paper 11/22 "*Transposition of Solvency II Part 1*" and Consultation Paper 12/13 "*Transposition of Solvency II Part 2*". These are the first two of three planned consultations, on the transposition of the Solvency II directive. Additionally, also in November 2011, HM Treasury published its consultation on the proposed amendments to make UK legislation consistent with Solvency II, "*Consultation on Solvency II*".

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 of the (Level 2) Delegated Acts and the working document of the (Level 3) preparatory 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 specifications are appropriate for the UK insurance market.

There remains considerable uncertainty regarding the technical basis for the valuation of long term insurance products including the implementation of transitional provisions. This leads to significant 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.

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 (the "**PRA**") covering prudential matters and the FCA (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.

Following the publication of articles in the UK press on 28 March 2014, the FCA confirmed (on 28 March 2014) its intention to perform a review of the fair treatment of long standing or legacy customers in the life assurance industry. The detailed scope of and potential conclusions from this thematic review are not known, although 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 has been notified by the FCA that it will be part of the thematic review to be carried out, 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.

1.23 ***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 Group's Life Companies; and
- changes in the Group's practices which benefit policyholders at a potential cost to Bondholders.

In addition to the FCA and PRA, certain of the Group's 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 Group's 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 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.

1.24 ***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, Luxembourg, 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 Group's 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.

1.25 ***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.

1.26 ***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.

1.27 ***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. While in April 2011 the CFO Forum withdrew the assertion that all members of the CFO Forum that report embedded value adopt the European Insurance CFO Forum Market Consistent Embedded Value Principles (the "**MCEV Principles**") by 31 December 2011, the CFO Forum remains committed to the publishing of supplementary embedded value information in the context of Solvency II. The Group will keep under review its approach to the embedded value reporting in this context. If the Group follows any new principles promulgated by the CFO Forum, 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 is set out in the notes to the MCEV supplementary information incorporated by reference into this Prospectus.

1.28 ***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 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.

1.29 ***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.

1.30 ***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.

1.31 ***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, the outsourcing by Phoenix Life of investment administration, fund accounting, custody services and other related back office administration services to HSBC and the reorganisation of certain of the Group's outsourcing relationships. 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 has announced that Completion of the Divestment occurred on 1 July 2014. The entry into a strategic asset management alliance with Standard Life Investments represents 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.

1.32 ***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 "*Additional Information—Material Contracts—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 that the contributions payable to the scheme following completion of that valuation are set out in the 2012 Pensions Agreement. The key terms of the 2012 Pensions Agreement are summarised at "*Additional Information—Material Contracts—Pearl Group Staff Pension Scheme Agreements*". The trustees of the PGL Pension Scheme and PGH1 have agreed that PGH1 will pay contributions of £1.25 million per month until August 2017.

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.

1.33 ***If the Group is unable to maintain the availability of its systems and safeguard the security of its data, including customer 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 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. Further, because of the long-term nature of much of the Group's 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.

1.34 ***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 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 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 Group 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 is currently consulting on proposed changes to the taxation of loan relationships and derivatives contracts (and has also announced legislation to facilitate changes in relation to the tax treatment of Solvency II compliant capital instruments). The nature of any changes, and therefore their potential impact on the Group, is not yet fully known. However, it is possible that 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 Groups' results, financial condition and prospects.

1.35 ***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.

1.36 ***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.

1.37 ***The Group will incur additional VAT liabilities for the asset management services provided to the Group by Ignis Asset Management.***

The Divestment of Ignis Asset Management itself is exempt from VAT, being a sale of shares. In addition, it is expected that any gain recognised by the Group arising as a result of the Divestment will be exempt from corporation tax on chargeable gains. However, the Group will incur additional VAT liabilities for the asset management services provided to the Group by Ignis Asset Management since the Completion of the Divestment.

VAT is charged on supplies of goods and services in the European Union. However, where supplies are made between parties in the same VAT group, they are ignored for VAT purposes. Ignis Asset Management is currently part of the PGMS VAT group and, as such, VAT has not been payable on its supplies of investment management services to the wider Group. However, since Completion of the Divestment, Ignis Asset Management is no longer a member of the PGMS VAT group and therefore the ongoing supplies of investment management and other services by Ignis Asset Management or its subsidiaries to members of the Group are likely to be subject to VAT at a rate of 20 per cent, to the extent that such services are not exempt from VAT. The Group expects to recognise approximately £21 million of increased liabilities (net of tax) in its IFRS balance sheet and £24 million of increased liabilities (net of tax) in its MCEV to reflect the impact of the expected increase in future investment management expenses. The Group has obtained a non-statutory confirmation from HMRC that they agree the VAT treatment which will be adopted by the Group following the Divestment, but any increase in the Group's VAT costs and any increase in liabilities associated with VAT could have a material adverse effect on the financial position and results of the Group's operations.

1.38 ***The Guarantor may become resident in the UK for tax purposes, which could have an adverse effect on the Group, result in stamp duty reserve tax being payable in respect of transfers of depositary interests and affect the basis for the IGD, PLHL ICA and Solvency II calculations.***

Since the Guarantor is not incorporated in the UK, it will not be treated as being resident in the UK for UK corporation tax purposes unless its central management and control is exercised in the UK. The concept of central management and control is indicative of the highest level of control of a company, which is a question of fact. 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).

A company not resident in the UK for UK corporation tax purposes can nevertheless be subject to UK corporation tax if it carries on a trade through a permanent establishment in the UK, but the charge to UK corporation tax is limited to profits attributable to such a permanent establishment. The Directors operate in a manner intended to ensure that the Guarantor does not carry on a trade through a permanent establishment in the UK (and intend to continue to operate in such manner).

The Group is subject to UK tax in relation to the profits earned in the UK by the Group's principal subsidiaries, excluding Opal Re and Scottish Mutual International, which are incorporated and/or are centrally managed and controlled in the UK and are accordingly tax-resident in the UK.

If the Guarantor is treated as being resident in the UK for UK corporation tax purposes, or if it is treated as carrying on a trade in the UK through a permanent establishment, this could have a material adverse effect on the Guarantor's business, results, financial condition and prospects. If the Guarantor were treated as UK-resident (or having a permanent establishment in the UK to which the interest related), its income and gains would be subject to tax in the UK, creating an additional tax cost to the Group in terms of a reduction in tax attributes, or potentially cash tax payable. There is also a risk, if the Guarantor is treated as UK-resident, that the profits of Opal Re might become taxable in the UK under the UK's controlled foreign company regime.

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.

Further, if the Guarantor is treated as being resident in the UK for UK corporation tax purposes, stamp duty reserve tax will be payable in respect of any agreement to transfer depositary interests and this could have a material adverse effect on the Group's business, results, financial position and prospects.

1.39 *Because the Guarantor is incorporated under the laws of the Cayman Islands, Bondholders 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 Bondholders to take action against the Guarantor are set out in the Conditions and the Trust Deed, which are governed by the laws of England and Wales. To the extent that any Bondholder 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.

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

The Group's 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 Bank plc ("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 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 expected to be integrated into the existing operations of Standard Life Investments. This will involve a period of change for the Group's 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.

2. RISKS RELATED TO THE ISSUER

2.1 *The Issuer's ability to fulfil its obligations under the Bonds is dependent on the Group.*

The Issuer is a direct wholly-owned subsidiary of the Guarantor and will use the net proceeds from the issuance of the Bonds as described under "*Use of Proceeds*". 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 Bonds. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Group providing 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 Bonds 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 Bonds.

2.2 *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.*

(a) 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 Irish directors, 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.

(b) Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Bondholders, the Bondholders 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).

(c) 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 High 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 and (ii) the High 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 (iii) whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

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

- the Trustee, acting on behalf of Bondholders, 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 Bondholders irrespective of the Bondholders' views;
- the examiner may set aside any negative pledge in the Bonds prohibiting the creation of security or the incurrence of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period;
- 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 High 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 Bondholders under the Bonds 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.

3. Factors which are material for the purpose of assessing the market risks associated with the Bonds

3.1 *Change of control put option.*

In certain circumstances following the occurrence of any Rating Change of Control and a Rating Downgrade or Negative Rating Event (each as defined and further described in the Conditions), each

Bondholder will have the option to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) any of the Bonds held by such Bondholder at a cash price equal to 101 per cent. of their principal amount together with interest accrued to, but excluding the date of redemption or purchase. However, certain other corporate events that might adversely affect the value of the Bonds might not constitute a "Put Event" as specified in the Conditions. In addition, the Issuer's ability to redeem or purchase the Bonds as may be required in the Conditions will depend on its access to funds at such time, and it may not be able to secure access to enough cash to finance the redemption or purchase.

3.2 ***The Group may be able to incur substantial additional indebtedness which, subject to certain conditions, may be secured and/or structurally senior to the Bonds.***

Although the Conditions contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and debt incurred in compliance with these restrictions could be substantial, and such indebtedness may be secured by the Group's assets.

As part of its financing strategy, it is the intention of the Group to simplify its financing arrangements, which may include moving to a single banking silo structure. The Group is currently in discussions with a group of lenders in relation to a proposed new unsecured facility which would be used to repay the Impala Facility, the Pearl Facility, the PIK Facility, the PIK Notes and the Lender Loan Notes (the "**Proposed Refinancing**"). The Group is aiming to enter into the Proposed Refinancing as soon as it is able to do so but terms have not yet been agreed and there can be no certainty that the Proposed Refinancing will be completed. However, the Group is permitted under the Conditions, subject to certain restrictions, to amend or extend the Existing Bank Debt on a secured basis, without securing the Bonds equally and rateably therewith.

Moreover, under the Conditions, in addition to specified permitted indebtedness, the Issuer, the Guarantor and the Guarantor's other subsidiaries are permitted to incur additional indebtedness so long as the Group is in compliance with its Financial Leverage Ratio (as defined in the Conditions), including indebtedness that is structurally senior to the Bonds. Generally, claims of policyholders of, holders of indebtedness of, and other creditors of, the Guarantor's subsidiaries, including lenders under bank financing agreements, are entitled to payments of their claims from the assets of such subsidiaries before these assets would be made available for distribution to the Issuer or any Guarantor.

Accordingly, in the event that any such subsidiary becomes insolvent, is liquidated, reorganised or dissolved or is otherwise wound up other than as part of a solvent transaction:

- creditors of the Issuer (including the holders of the Bonds) will have no right to proceed against the assets of such subsidiary; and
- creditors of such subsidiary, including claims of policyholders and other creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Issuer or the Guarantor, as a direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

As such, the Bonds will be structurally subordinated to the creditors of any such subsidiaries.

3.3 ***The Financial Leverage Ratio is calculated using pro forma financial information, which may be prepared on a different basis to the corresponding information contained in the Group's most recently published balance sheet.***

For the purposes of calculating the Financial Leverage Ratio (as defined in the Conditions) pursuant to Condition 6.2 (*Leverage Covenant*), the Group is permitted to calculate Gross Shareholder Debt and Gross MCEV (each as defined in the Conditions) on a pro forma basis to allow for any indebtedness, merger(s), acquisition(s) and/or disposal(s) which have been incurred, repaid, completed and/or made since the most recent published balance sheet date. In making such pro forma adjustments, the Group will use information from its monthly management accounts, which are not produced using the same process as is used to calculate Gross Shareholder Debt and Gross MCEV as at the Group's financial year end or half year. Instead, the relevant full year or half year balance sheet position is adjusted using sensitivity analysis and is based on other assumptions and estimates made by management. It is possible that such sensitivity analysis, assumptions and estimates may subsequently prove to be incorrect and the data calculated using such information may be materially different than if it was calculated using an approach consistent with year end or half year valuation. Any such inaccuracies or differences could result in the Financial Leverage Ratio being calculated at a level which erroneously permits the Issuer, the Guarantor or any of the

Guarantor's other subsidiaries to incur further indebtedness above the level permitted by the leverage covenant, which may adversely affect the interests of Bondholders.

3.4 ***Certain conditions which protect the interest of Bondholders may fall away upon the occurrence of a change in ratings.***

If at any time following the Issue Date, the Bonds are given an Investment Grade Rating (as defined in the Conditions) by at least one of the Rating Agencies (as defined in the Conditions), and no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred and is continuing (a "**Suspension Event**"), then beginning that day and continuing until such time, if any, at which the Bonds cease to have an Investment Grade Rating from at least one of the rating agencies, the covenants set out in Condition 6.2 (*Leverage Covenant*) and Condition 6.3 (*Anti-layering*), and the Rating Change of Control Put Option in Condition 8.3 (*Rating Change of Control Put Option*), will cease to be applicable to the Bonds.

In addition, if no Suspension Event has occurred, Condition 6.1(a) (*Negative Pledge—No Suspension Event*) shall apply and if a Suspension Event has occurred, Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall apply. The negative pledge provision contained in Condition 6.1(a) (*Negative Pledge—No Suspension Event*) imposes a broader range of restrictions on the ability of the Issuer, the Guarantor and the Guarantor's Material Subsidiaries to incur further Indebtedness on a secured basis, than the negative pledge in Condition 6.1(b) (*Negative Pledge—Suspension Event*), which subject to certain exceptions, applies only to Relevant Indebtedness (as defined in the Conditions).

However, the provisions of Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall continue to apply if, either (i) prior to the date on which the Suspension Event occurred or (ii) whilst there is a Suspension Event, all of the Existing Bank Debt has been repaid or refinanced by Indebtedness issued by the Issuer or the Guarantor. In addition, the provisions of Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall continue to apply and any Security Interest in respect of the Bonds which had been created pursuant to Condition 6.1(a) (*Negative Pledge—No Suspension Event*) shall be released if, either (I) prior to the date on which the Suspension Event occurred or (II) whilst there is a Suspension Event, all of the Existing Bank Debt (or any secured Indebtedness issued by the Issuer or the Guarantor that was used to refinance such Existing Bank Debt) has been repaid or refinanced by unsecured Indebtedness issued by the Issuer or the Guarantor, or the Security Interests (including any Security Interest described under clauses (k) or (l) of the definition of "Permitted Security Interest") in respect of any secured Indebtedness issued by the Issuer or the Guarantor that was used to refinance the Existing Bank Debt have been released or cease to apply.

If these covenants and the Rating Change of Control Put Option were to cease to be applicable on either a temporary or a permanent basis, the Issuer, the Guarantor and/or the Guarantor's Material Subsidiaries would be able to incur additional Indebtedness (on a secured or an unsecured basis), which may be adverse to the interests of the Bondholders, and/or the Bondholders would no longer have the ability to cause the Issuer to redeem the Bonds prior to their scheduled maturity date following a credit negative change of control of the Guarantor. There can, however, be no assurance that the Bonds will ever achieve an Investment Grade Rating or that any such rating will be maintained.

3.5 ***There is no active trading market for the Bonds.***

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made for the Bonds to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds.

3.6 ***Payments on the Bonds may be subject to U.S. Foreign Account Tax Compliance Withholding Act withholding when paid through non-compliant custodians or other intermediaries.***

Whilst the Bonds are in the form of a Global Certificate held within the clearing systems, in all but the most remote circumstances, it is not expected that Sections 1471 through 1474 of the U.S. Internal Revenue Code (the "**Code**") or regulations and other authoritative guidance thereunder ("**FATCA**") will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. FATCA may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of FATCA withholding, 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 custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and 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. Pursuant to the terms and conditions of the Bonds, the Issuer's obligations under the Bonds are discharged once it has paid the Paying Agent for onward payment via the clearing systems and neither the Issuer nor any Paying Agent will be required to pay additional amounts should FATCA withholding apply to any amount transmitted through the clearing systems and thereafter through custodians or other intermediaries.

3.7 ***The Bonds may be redeemed prior to maturity.***

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Bonds due to any 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 Ireland (in the case of the Issuer) or the Cayman Islands or Jersey (in the case of the Guarantor) or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Bonds in accordance with the Conditions. This optional redemption feature may limit the market value of the Bonds. During any period when the Issuer may elect to redeem Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. For further information, see Condition 8.2 (*Issuer tax call*) in the Conditions.

3.8 ***Minimum Denomination.***

The denomination of the Bonds is £100,000 and integral multiples of £1,000 in excess thereof. Therefore, it is possible that the Bonds may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than £100,000 will not receive a Bond Certificate in respect of such holding (should Bond Certificates be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more denominations.

3.9 ***Credit ratings may not reflect all risks.***

A credit rating will not be assigned to the Bonds on issue. However, one or more independent credit rating agencies may subsequently assign credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Bonds by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of the Group's financings and could adversely affect the value and trading of the Bonds.

3.10 ***Modification, waivers and substitution.***

The Conditions contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally and to obtain Written Resolutions on matters relating to the Bonds from Bondholders without calling a meeting. A Written Resolution signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed and whose Bonds are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Bonds are held in global form in the clearing systems, the Issuer, the Guarantor and the Trustee (as the case may be) will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), 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 systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding; and

(ii) where electronic consent is not being sought, 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 systems with entitlements to the Global Certificate or, where the accountholders hold 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 (directly or via one or more intermediaries), provided that the Issuer, the Guarantor and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A Written Resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Bondholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Bondholders satisfying the special quorum in accordance with the provisions of the Trust Deed, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

In addition, the Conditions of the Bonds and the Trust Deed also provide that the Trustee may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or the Trust Deed (save in relation to certain matters described in the Conditions) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error, (ii) determine without the consent of the Bondholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor or guarantor under any Bonds in place of the Issuer or the Guarantor, as the case may be.

3.11 *Change of law.*

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

3.12 *Exchange rate risks and exchange controls.*

The Issuer will pay principal and interest on the Bonds and the Guarantor will make any payments under the Guarantee in pounds 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 pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds 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 pounds sterling would decrease (1) the Investor's Currency equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

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.

3.13 *Interest rate risks.*

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

3.14 ***EU Savings Directive.***

The EU 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 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 and Luxembourg are instead required to 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 they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures to the Savings Directive and certain dependent or associated territories of certain EU Member States have adopted the same measures. The Luxembourg government has announced its intention to opt out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

On 24 March 2014, 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 a 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 law implementing or complying with, or introduced in order to conform to, the Savings Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond 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 the Savings Directive or any law implementing or complying with, or introduced in order to conform to, the Savings Directive, which may mitigate an element of this risk if the Bondholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and 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

The summary financial information relating to the Group set out below has been extracted without material adjustment from the audited financial statements (including the accompanying notes) of the Group as at and for 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 Q1 2014 Interim Management Statement, 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 as adopted by the European Union, 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.

Bondholders 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 Audited Financial Statements which are incorporated by reference into this Prospectus.

	For the year ended 31 December		
	2013	**2012[1] Restated**	**2011**
		(audited)	
IFRS operating profit before tax (£ million)	439	429	387
IFRS profit/(loss) before tax attributable to owners (£ million)	217	309	(177)
IFRS earnings/(loss) per share (pence):			
Basic	68.2	235.0	(76.2)
Diluted	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.

	As at 31 December		
	2013	**2012**	**2011**
		(audited)	
Total IFRS assets (£ million)	74,073	86,094	89,501
IFRS equity attributable to ordinary shareholders (£ million)	1,909	1,658	1,652

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 year ended 31 December		
	2013	**2012**	**2011**
		(audited)	
Operating companies' cash generation (£ million)	817	690	810
Dividend per share (pence)	53.4	47.7	42.0

	As at 31 December		
	2013	2012	2011
	(unaudited, unless otherwise indicated)		
IGD surplus (£ billion)	1.2	1.4	1.3
Group MCEV (£ million) (*audited*)	2,378	2,122	2,118
Group assets under management (£ billion)	68.6	68.6	72.1
PLHL ICA surplus (£ billion)	1.2	1.0	—(1)
Gearing (per cent.)	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.

(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.

The following documents, all of which have been filed with the National Storage Mechanism or announced through a Regulatory Information Service are incorporated in full into this Prospectus by reference:

1. 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;

2. 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

3. 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. Request for copies of any such documents should be directed to the Guarantor's principal place of business.

INDUSTRY OVERVIEW

1. 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.

2. 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.

2.1 *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.

2.2 *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, driven partly by pension reforms; 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.

3. Closed Life Funds

3.1 *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 have been proposed that could adversely affect the Group*"). Amongst other factors, the result of Solvency II may be that the PRA may require 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 companies will be put up for sale in the next few years, as some insurance groups seek to release value from closed life funds to support their ongoing new business.

3.2 *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.

3.3 ***Competitive environment for closed life fund consolidators***

Closed life fund consolidators compete with each other for the acquisition of closed life companies 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, measured by total assets.

INFORMATION ON THE GROUP

1. 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, with total assets under management of £68.6 billion and over 5 million policyholders as at 31 December 2013. 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. As at 31 December 2013, the Group had MCEV of £2,378 million. Until recently, the Group had another business segment: asset management—referred to as Ignis Asset Management. 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 has announced that Completion of the Divestment occurred on 1 July 2014, as further described below.

The Group has four operating Life Companies which hold policyholder assets, referred to herein as the "**Life Companies**":

- Phoenix Life Limited;
- 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 certain of the Group's Life Companies.

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 Group's 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. 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 has announced that Completion of the Divestment occurred on 1 July 2014. Ignis Asset Management was the Group's asset management business, providing asset management and asset and liability management services to the Group's 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 Group's Life Companies and Holding Companies and £15 billion of third party assets.

2. 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) the Pearl Borrowers, which 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 Regulated 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. 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 has announced that Completion of the Divestment occurred on 1 July 2014. The total consideration may be adjusted by certain adjustments pursuant to the post-closing price adjustments in the Divestment Agreement, 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. These post-Completion price adjustments will not increase the total consideration payable to Impala. The Guarantor and Standard Life Investments have also reached agreement on a long-term strategic asset management alliance, as further described below. The Guarantor is required to prepay the Impala Facility by approximately £250 million within five Business Days of Completion, in accordance with the terms of the Impala Consent Letter. The remaining proceeds of the Divestment will be used by the Group for general corporate purposes.

3. Strengths and Strategy of the Group

3.1 *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.

Since the Completion of the Divestment, 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 Group's Life Companies' policies run-off, excess capital supporting these liabilities can be released from the Life Companies to their shareholders, the Group's 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 Group's Holding Companies and £690 million and £817 million of cash was distributed from the operating companies to the Group's 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 Group's 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 Group's 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 Group's 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.

(d) *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.

3.2 ***Strategy***

The Group's mission is to improve returns for its policyholders 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:

(a) *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 Group's Life Companies.

The Group believes that the Group is well positioned to adapt to new requirements arising from Solvency II regulatory changes. Simplifying the Group's capital structure brings greater flexibility and is a fundamental enabler of the strategic growth ambitions of the Group.

(b) *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 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.

(c) *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.

(d) *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 over the medium term. These dynamics include the potential 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 will assess potential acquisitions in light of the financial condition of the Group. Any acquisition would only be undertaken if it resulted in a sustainable level of gearing for the combined Group of appreciably below 40 per cent. (around the mid-point of the 35 per cent. to 40 per cent. range) consistent with the strategy of lowering the Group's gearing to attain an investment grade credit rating and obtaining regulatory approval. Assuming a £250 million prepayment of the Impala Facility is made as a result of the Divestment, and on the basis of other assumptions referred to in Section B and Section D in "*Financial Information Relating to the Divestment*" in this Prospectus, the level of the Group's gearing would reduce to 39 per cent. (pro forma as at 31 December 2013). Therefore, the Divestment provides the Group with greater financial flexibility in relation to any potential future acquisition opportunities.

(e) *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, it is the intention of the Group to simplify its financing arrangements, which may include moving to a single banking silo structure. The Group is currently in discussions with a group of lenders in relation to a proposed new unsecured facility which would be used to repay the Impala Facility, the Pearl Facility, the PIK Facility, the PIK Notes and the Lender Loan Notes (which is referred to in this Prospectus as the Proposed Refinancing). The Group is aiming to enter into the Proposed Refinancing as soon as it is able to do so but terms have not yet been agreed and there can be no certainty that the Proposed Refinancing will be completed.

(f) *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.

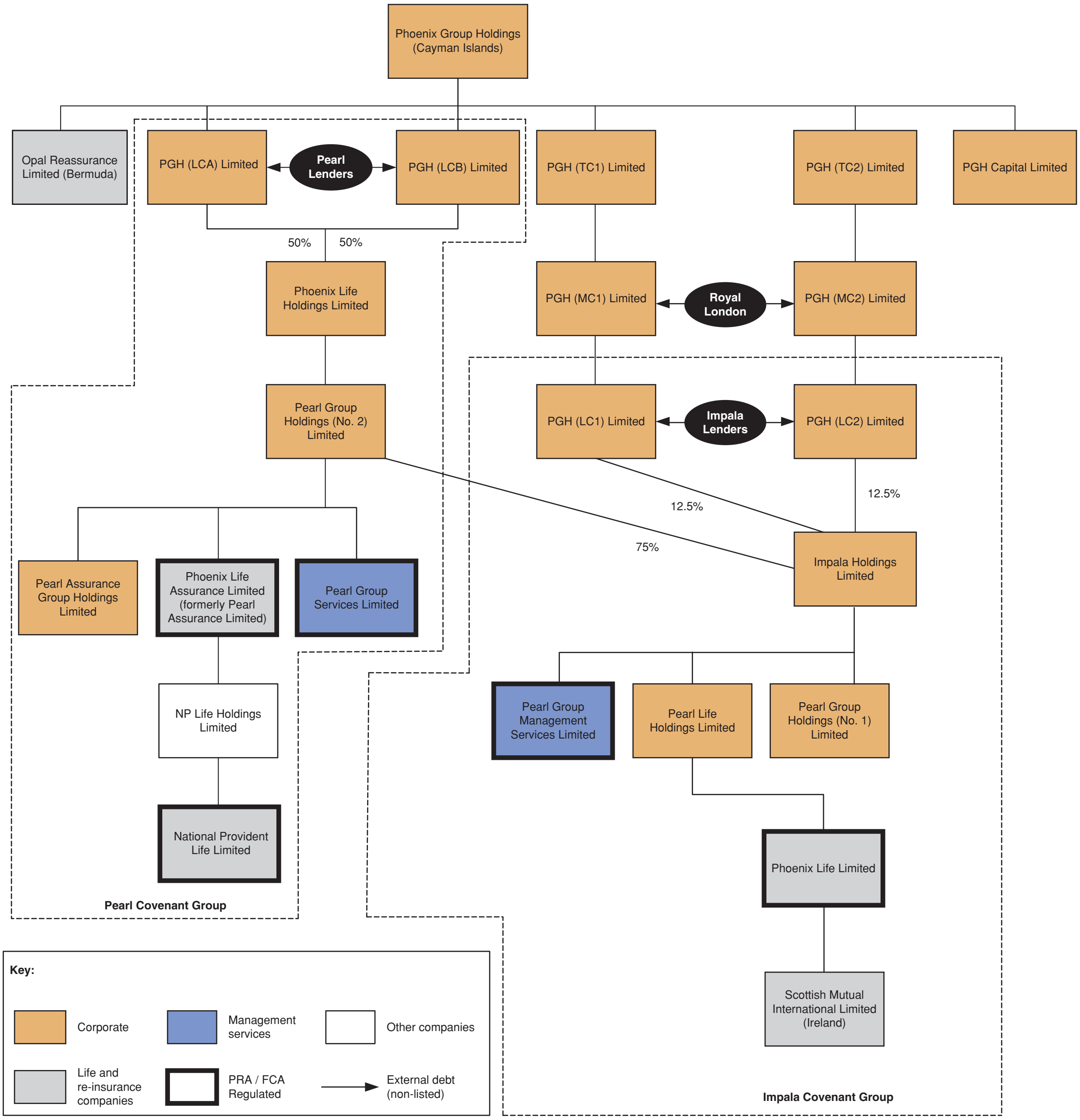
4. STRUCTURE OF THE GROUP

The Group's operating structure is aligned to the market sectors in which it operates. The Group operates within 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 Group's 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. Certain of these companies are the borrowers of the Group's external debt that was used to help fund the acquisitions. For more information on the Group's borrowings, see "*Description of Certain Other Indebtedness—Credit Facilities*".

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) Dotted lines denote the Pearl Covenant Group and the Impala Covenant Group.

(3) Pearl Group Holdings (No. 1) Limited and Phoenix Life Limited are the issuers of the Tier 1 Bonds and Tier 2 Bonds, respectively. For further information, see "*Additional Information—Material Contracts—Tier 1 Bonds*" and "*Additional Information—Material Contracts—Tier 2 Bonds*"

Phoenix Life is responsible for the financial and operational management of the closed insurance fund business of the Group with the support of the management service companies and outsourced service providers.

4.1 ***Insurance business***

(a) 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.

On 24 September 2012, the High Court approved a Part VII transfer for the transfer of all of the insurance business of London Life Limited to Pearl Assurance Limited, with an effective date of 1 July 2012. Pearl Assurance Limited was renamed Phoenix Life Assurance Limited on 28 September 2012. See "*Regulatory Framework Overview—Additional Regulation for Insurance Business—Transfer of insurance business*" for a description of a Part VII transfer. Following the transfer becoming effective, London Life Limited has ceased to carry on any insurance business and is now deauthorised.

On 27 June 2012, the Guarantor announced an agreement to transfer approximately £5 billion of annuity in-payment liabilities to Guardian Assurance. These liabilities were then transferred to Guardian Assurance on 30 September 2013 under a Part VII arrangement.

Although the Group's 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 held by a Group 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.

(b) Reinsurance

(i) Overview

The Group's 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.

(ii) Internal reinsurance

Within the Original Pearl Life Companies, 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. Following its demutualisation in 2000, National Provident Life reinsured a significant portion of its unit linked business, including new business, to NPI, whose business was transferred to Phoenix Life Limited effective 1 January 2012. Following the transfer becoming effective, NPI has ceased to carry on any insurance business and is no longer authorised.

The various life funds within Phoenix Life Limited themselves hold a significant amount of intra-fund arrangements, mostly to achieve financial and operational synergies.

(iii) 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 Group Life Companies and does not have any third party clients. As at 31 December 2013, the Group's Life Companies had reinsured a total of approximately £1.6 billion of their 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.

(iv) 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 mortality and morbidity, long-term disability, critical illness and some investment risk.

4.2 *Management services*

(a) Overview

Each of the Group's Life Companies is responsible to its policyholders for the administration of its policy portfolio and the provision of policyholder services, such as collection of premiums, the provision of policyholder statements, 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 costs and create impediments for the Life Company in managing the efficient run-off of its policies. Much of this incremental cost would be likely to fall to policyholders. In addition to these cost challenges, each Life Company is required to hold sufficient capital for its operational risks.

To allow the Group's 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 Group's 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 Group's Life Companies benefit from 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 are retained in-house, ensuring the Group retains full control over the core capabilities necessary to manage and integrate closed life funds. The Group's Life Companies continue to retain ultimate responsibility to their policyholders and aim to achieve improvement in the quality of service delivered to policyholders.

The Group believes that consolidating policyholder services within Phoenix Life's two management service companies increases certainty for policyholders and enables the Group's Life Companies to share the costs of the provision of these services and other corporate overhead costs so that shareholders 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.

(b) 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 Group's Life Companies. The most significant outsourcing relationship for asset management services is that with Ignis Asset Management, since 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 shift its cost base from a largely fixed cost base to a 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.

Phoenix Life's outsourced service providers are specialist providers of life and pensions administration services, with the know-how, expertise and business models that put administration at the core of their service offerings. The services provided by outsourced service providers include policy administration, human resources, financial administration and information technology services.

4.3 ***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.

4.4 ***Substantial Shareholdings***

Information provided to the Guarantor pursuant to the FCA's Disclosure and Transparency Rules 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 3 July 2014**[(1)]	**Percentage of Ordinary Shares in issue as at 3 July 2014**
TDR Capital Nominees Limited[(2)]	13,923,409	6.19
Henderson Global Investors	11,427,356	5.08
Artemis Investment Management LLP	11,347,387	5.05
Ameriprise Financial, Inc.	11,277,894	5,02
William Alan McIntosh	9,597,493	4.27
Nicholas Berggruen Charitable Trust	8,906,712	3.96
Hugh Edward Osmond	8,823,352	3.92
FIL Limited	8,756,186	3.89

Notes:

(1) There exist 25,529,868 outstanding redeemable Warrants in the Guarantor. Each Warrant is exercisable into 1.027873 Ordinary Shares of the Guarantor. To the extent they are exercised, the Guarantor will be required to issue up to 26,241,462 additional Ordinary Shares.

(2) The stated shareholding includes Ordinary Shares also held by Jambright Limited and Jambright Midco Limited., which are entities in which TDR Capital holds a beneficial interest.

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.

5. THE DIVESTMENT OF IGNIS ASSET MANAGEMENT

5.1 Overview

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 has announced that Completion of Divestment occurred on 1 July 2014. The total consideration may be adjusted by certain adjustments pursuant to the post-closing price adjustments provisions in the Divestment Agreement. The Guarantor and Standard Life Investments have also reached agreement on a long-term strategic asset management alliance, as further described below.

The Guarantor is required to prepay the Impala Facility by approximately £250 million within five Business Days of Completion, in accordance with the terms of the Impala Consent Letter. The remaining proceeds of the Divestment will be used by the Group for general corporate purposes. Assuming a £250 million prepayment of the Impala Facility is made as a result of the Divestment and on the basis of the other assumptions referred to in Section B and Section D in "*Financial Information Relating to the Divestment*" in this Prospectus, this would:

(a) reduce the total outstanding level of the Group's bank debt to £1,362 million; and

(b) reduce the level of the Group's Gearing to 39 per cent.,

each expressed on a pro forma basis as at 31 December 2013.

5.2 Principal terms and conditions of the Divestment

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. These post-Completion price adjustments will not increase the total consideration payable to Impala.

As part of the Divestment, Impala has agreed to a purchase price adjustment in the event that assets held by the Group's 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 Group's 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.

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 Group's 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 Phoenix, 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.

5.3 The financial effects of the Divestment on the Group

The financial effects of the expected Divestment assume: (i) receipt by Impala of the net proceeds from the Divestment of £384 million, after deduction of commissions, fees and expenses incurred in relation to the Divestment; (ii) other associated adjustments as set out in Section B and Section D of "*Financial Information Relating to the Divestment*" in this Prospectus; and (iii) payment of the £250 million debt prepayment expected to be made in respect of the Impala Facility following Completion. The pro forma financial information assumes that all such transactions took place on 31 December 2013 and is based on the Group's published financial information at that date (but not taking into account any other transactions or results between 31 December 2013 and the date of this Prospectus). The financial effects of the Divestment are expected to include:

(i) a reduction in the Group's Gearing from 44 per cent. to 39 per cent. on a pro forma basis as at 31 December 2013;

(ii) an expected reduction in the Group's PLHL ICA surplus by £0.1 billion as at 31 December 2013;

(iii) a broadly neutral impact on the Group's IGD surplus on a pro forma basis as at 31 December 2013. The Group's IGD assessment is made at the PLHL level;

(iv) an increase in the Group MCEV per share from £10.58 to £11.63 on a pro forma basis as at 31 December 2013; and

(v) an increase in the Group MCEV by £237 million to £2,615 million on a pro forma basis as at 31 December 2013 as a result of the £250 million debt repayment.

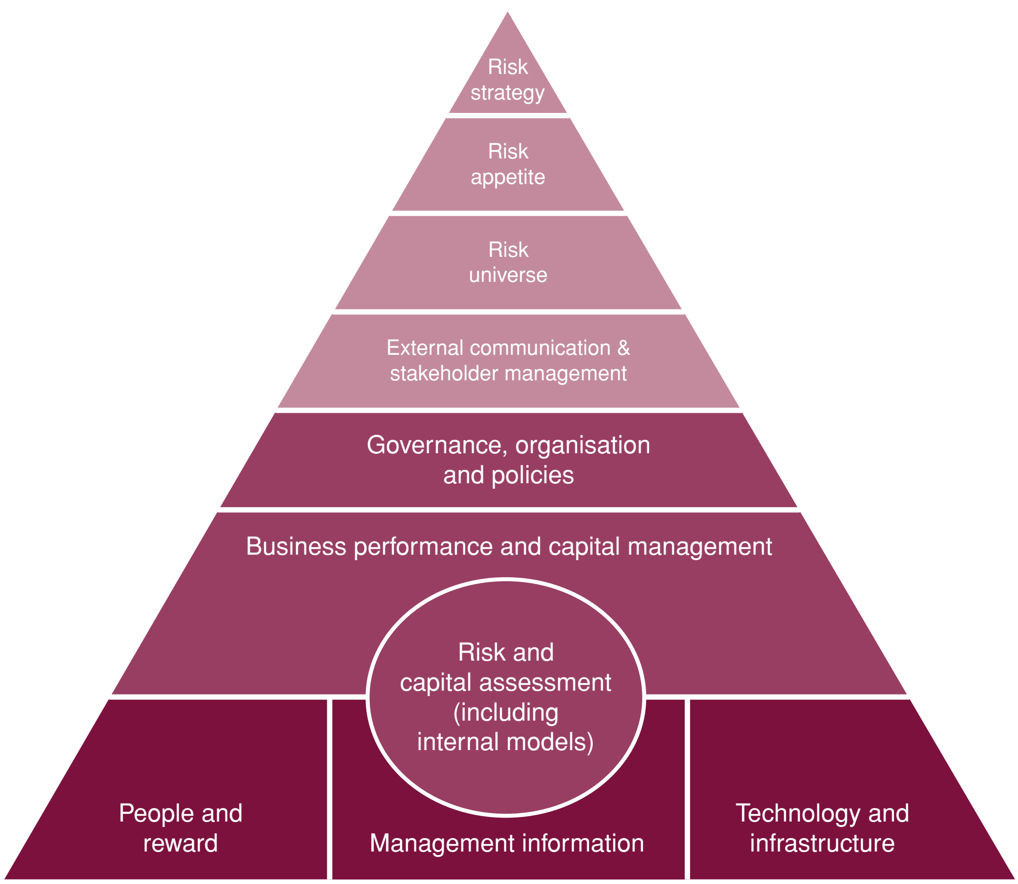
The Group calculates gearing as gross shareholder debt as a percentage of the gross MCEV. Gross shareholder debt is defined as the sum of IFRS carrying value of shareholder debt (pro forma figure as at 31 December 2013: £1,607 million) and 50 per cent. of the IFRS carrying value of the Perpetual Reset Capital Securities issued by Pearl Group Holdings (No. 1) Limited given the hybrid nature of that instrument (pro forma as at 31 December 2013: £408 million). Gross MCEV is defined as the sum of the Group MCEV (pro forma as at 31 December 2013: £2,615 million) and the value of the shareholder and hybrid debt as included in the MCEV (pro forma as at 31 December 2013: £2,011 million).

6. Risk Management

Risk management lies at the heart of what the Group does and is a source of value creation, making it a key component of the Group's strategic agenda. The Board seeks to ensure that the Group identifies and manages all risks accordingly, either to create additional value for its stakeholders or to mitigate any potentially adverse effects. See the "*Risk Factors*" section of this Prospectus for a discussion of certain risks relating to the Group.

6.1 *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 has continued to strengthen the components of the RMF to ensure that they are aligned with the requirements of Solvency II and external best practice.

6.2 *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.

6.3 *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.

6.4 *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.

6.5 *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.

6.6 *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.

6.7 ***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.

6.8 ***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.

6.9 ***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.

6.10 ***Risk and capital assessment***

The Group operates a standardised assessment framework 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.

6.11 *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.

6.12 *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 and during 2012 and 2013, Group Risk delivered training and awareness sessions across the Group.

6.13 *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.

7. 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:

7.1 *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 2 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

Name	Registered office	Class of shares	Proportion of share capital held by the Group	Nature of business
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 and preference 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
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

7.2 *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	55.8 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

8. 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 Group's Life Companies is the Wythall site.

Opal Re operates from offices in Hamilton, Bermuda.

INFORMATION ON 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**"). The registered office of the Issuer is Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland and its telephone number is +353 1402 9400.

1. Share capital and ownership

The authorised share capital of the Issuer is GBP 1,000,000 divided into 1,000,000 ordinary shares of par value GBP 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 and regulations made thereunder.

2. 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 Bonds) 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 to use amounts equal to the proceeds of each such issuance to advance loans to Group companies.

Since its incorporation, the Issuer has not commenced operations. The Issuer has no employees.

2.1 *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 Harcourt Road Dublin 2 Ireland
Ciaran McGettrick	Regus House Harcourt Road Dublin 2 Ireland
Rashmin Shah	Juxon House 100 St Paul's Churchyard London EC4M 8BU United Kingdom

The Company Secretary is Bradwell Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

Save for the issue of the Bonds described in this Prospectus and any related arrangements, the Issuer has no 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.

2.2 ***Financial Statements***

Since its date of incorporation, the Issuer has not commenced operations and 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 is 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

1. 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
David Barnes	Independent Non-Executive Director
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 PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal place of business of the Guarantor	1st Floor, 32 Commercial Street St. Helier Jersey JE2 3RU Channel Islands

2. 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. Howard 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 plc and Director of Finance for the Insurance and Investments Division. 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. Ian Cormack is Non-Executive Chairman of Maven Income & Growth VCT 4 plc and is a 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 over 30 years audit experience from 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.

David Barnes
Independent Non-Executive Director

David Barnes joined the RBS Group (then Williams & Glyn's Bank) in 1973 and remained there in various roles until his early retirement in February 2009. His roles included Relationship Banker in the then newly established Corporate Division, Managing Director of the Financial Institutions Relationship Management team and member and subsequently Chairman of RBS's Credit Committee. From 2005 he was responsible for all lending to financial institutions and for capital management for RBS's Financial Institutions Group. Mr Barnes was appointed to the Board of Directors of the Guarantor on 2 September 2009. He is a member of the Guarantor's Board Audit Committee and the Guarantor's Board Remuneration 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. She was also Chief Financial Officer at Eureko BV. Ms Hudson is Non-Executive Chair of the National House Building Council and a Non-Executive Director of QBE Insurance and The Pensions Regulator. 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, the Guarantor's Board Risk 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.

David Woods
Independent Non-Executive Director

David Woods is a Fellow of the Institute of Actuaries and a Non-Executive Director of Standard Life UK Smaller Companies Trust plc, Murray Income Trust plc and The Moller Centre for Continuing Education. 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 trustee of the Scottish Provident Pension Fund. 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.

3. 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) 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 Morgan Stanley Inc. Prudential PLC The Royal National Theatre British Government's Airport Commission Regulatory and Compliance Advisory Board of Millennium LLC International Advisory Council of the China Banking Regulatory Commission International Advisory Council of the China Securities Regulatory Commission	London School of Economics LSE Lets Limited Paternoster Limited Russel Group Tate Gallery Tate Foundation The Royal Academy of Music
Clive Bannister	Dreamchasing Doorfield Property Management Limited Punter Southall Group Limited Rougemont Management Limited Unigestion Holding SA	HSBC Insurance Holdings Limited HSBC Insurance Services Holdings Limited Ignis Asset Management Limited(1) Ignis Investment Services Limited(1) Ignis Fund Managers Limited(1) Marsh Brokers Limited
James McConville . .		Gosforth Funding plc Gosforth Funding 2011-1 plc Gosforth Holdings Limited Guardian Assurance Limited Guardian Linked Life Assurance Limited Guardian Pensions Management Limited Ignis Asset Management Limited(1) Ignis Investment Services Limited(1) Ignis Fund Managers Limited(1) Lloyds TSB Financial Services Limited (now called Lloyds Bank Financial Services Limited) Northern Rock plc (now called Virgin Money PLC) Pensions Management (S.W.F.) Limited Scottish Equitable Holdings Limited Scottish Equitable plc Scottish Widows Annuities Limited Scottish Widows Bank PLC Scottish Widows Financial Services Holdings Scottish Widows Group Limited Scottish Widows plc Scottish Widows (Port Hamilton) Limited Scottish Widows Property Management Limited Scottish Widows Services Limited Scottish Widows Unit Funds Limited SW (No.1) Limited SW (No.3) Limited Scottish Widows Holdings Limited (26 April 2009)(2) SW (No. 2) Limited (24 April 2009)(2) TSB Financial Services Limited TSB Investment Services Limited (28 December 2009)(2) TSB Life Limited (14 April 2009)(2) TSB Pensions Limited (14 April 2009)(2)
René-Pierre Azria . .	Abrams Inc. La Martiniere Groupe Tegris LLC	Jarden Corporation
Alastair Barbour . . .	RSA Insurance Group plc Standard Life European Private Equity Trust plc Liontrust Asset Management plc CATCo Reinsurance Opportunities Fund Ltd Bank of N.T Butterfield & Son Limited CATCo Reinsurance Fund Limited Scottish Equitable Policyholders Trust Limited	
David Barnes	None	None

Name	Current	Previous
Ian Cormack	Bloomsbury Publishing Plc Maven Income & Growth VCT 4 PLC National Angels Limited Temporis Capital LLP Xchanging plc Partnership Assurance Group PLC Partnership Life Assurance Company Limited Partnership Home Loans Limited	African Carbon Reductions Limited (8 March 2011)(2) Cormack Tansey Partners Carbon Efficient Energy Limited Carbon Reductions Limited (24 April 2012)(3) Entertaining Finance Limited (4 July 2012)(3) Europe Arab Bank PLC Gulf Carbon Reductions Limited Qatar Financial Centre Authority Qatar Insurance Services LLC Arria NLG Limited Aspen Insurance Holdings Aspen Insurance UK Limited
Tom Cross Brown . .	Alpha Securities Trading Limited Artemis Alpha Trust PLC Artemis Investment Management LLP Heathfield School Financial Standards Planning Board Limited Islip Consulting Limited Just Retirement Group PLC Just Retirement Limited Just Retirement Solutions Limited The Heathfield School Foundation	Aethra Asset Management B.V. Bluebay Asset Management plc
Isabel Hudson	National House-Building Council QBE Insurance Group Limited	Basinhall Limited (20 January 2009)(3) Elders Insurance Limited Fineos Corporation Limited Fineos plc Marine and General Mutual Life Assurance Society QBE Insurance (Australia) Limited QBE Insurance (International) Limited Synesis Administration Limited (1 December 2009)(3) Synesis Finance Limited (20 January 2009)(3) Synesis Life Limited (22 June 2010)(2) Synesis Pensions Limited (22 June 2010)(2)
Kory Sorenson	SCOR SE SCOR Reinsurance Company (US) SCOR Global Life Americas Insurance Company UNIQA Insurance Group AG Institut Pasteur	
David Woods	Barbon Holdings Limited Santander UK Corporate Pension Trustees Standard Life UK Smaller Companies Trust PLC Murray Income Trust plc The Moller Centre for Continuing Education Limited Steria (Management Plan) Trustees Limited Steria (Pension Plan) Trustees Limited Steria (Pooled Investments) Trustees Limited Steria (Retirement Plan) Trustees Limited Steria Electricity Supply Pension Trustees Limited Barbon Insurance Group Limited Caley Limited	Royal Liver Assurance Heriot-Watt University Property & Commercial Limited

Notes:

(1) The Director ceased to be a director of this company upon the Completion of the Divestment of Ignis Asset Management.

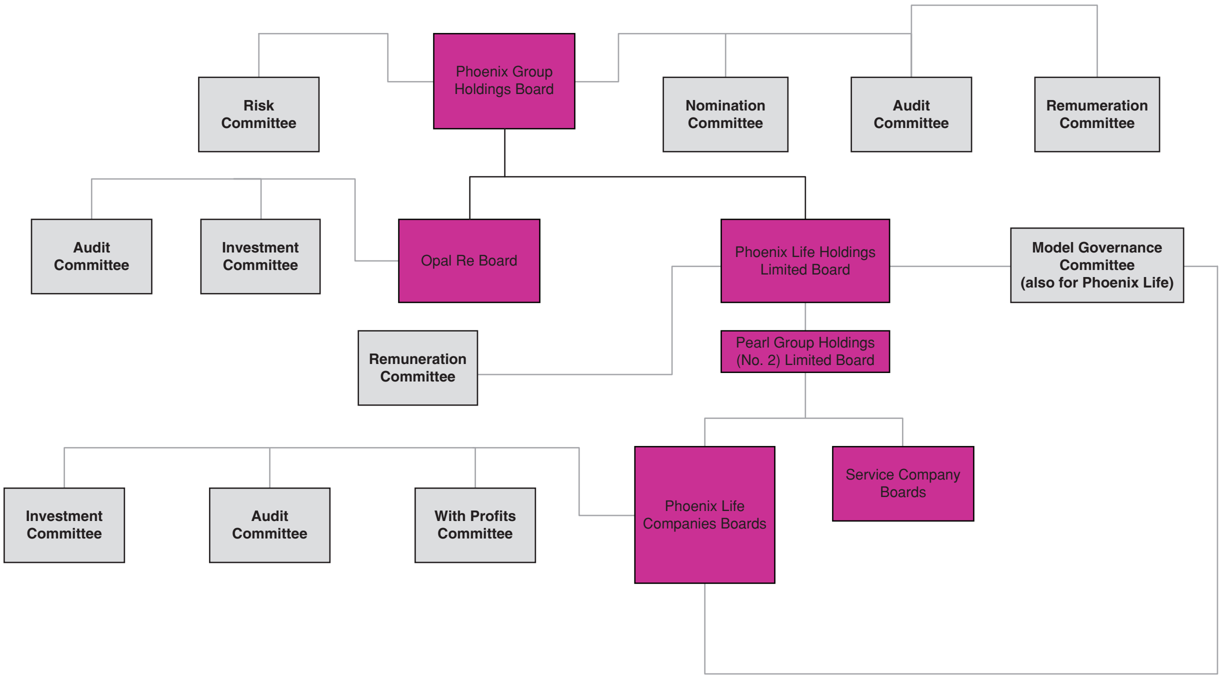
(2) Dissolved on this date.

(3) Dissolved via voluntary strike off on this date.

4. 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 UK Corporate Governance Code has applied to the Guarantor from 1 January 2011.

The following diagram depicts the Group's current governance structure:



4.1 ***The Board***

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director and eight other Non-Executive Directors (the "**Non-Executive Directors**"), seven 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, David Barnes, 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 is in Jersey, where the Guarantor's head office is located.

4.2 ***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.

4.3 ***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 November 2013.

The process involved completion by Directors of a questionnaire covering various aspects of Board and Director effectiveness, followed by individual meetings between the Chairman and each Director, concluding in a Board report which was discussed by the Board in December 2013. 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 informed the review of the Board composition and structure undertaken by the Board Nomination Committee in January 2014, leading to the Board's recommendations to shareholders regarding re-election of directors at the 2014 AGM.

All Directors receive a tailored induction on joining the Board and benefit from an ongoing training programme.

4.4 ***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.

4.5 ***Board's committees***

The Board has delegated specific responsibilities to four standing committees of the Board.

(a) *Audit Committee*

Alastair Barbour is the Chairman of the Audit Committee. The other members are David Barnes and Isabel Hudson. 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.

(b) *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.

(c) *Remuneration Committee*

Ian Cormack is Chairman of the Remuneration Committee. The other members are David Barnes and Isabel Hudson. 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.

(d) *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, Tom Cross Brown and Isabel Hudson.

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*".

5. 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.

Jane MacLeod

General Counsel

- Leads provision of legal advice to the Group Board, other Group company Boards, ExCo and senior management;
- Oversees and co-ordinate 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.

6. 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 Group's 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, subject to regulatory approval. 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.

Jane MacLeod

Jane MacLeod was appointed General Counsel in October 2009, having previously been Group Legal Director since September 2008 and prior to that Senior Legal Advisor for the former Pearl Group since February 2006. Jane has previously held senior legal roles with Henderson Group plc, AMP (UK) plc, and law firms Minter Ellison (Australia) and Wilde Sapte (UK).

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.

7. 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	WS Atkins Plc Paragon Group of Companies PLC	None
Steve Fawcett	None	None
Jane MacLeod	Rennie Grove Hospice Care	None
James McConville(2)		
Andy Moss	None	None
Wayne Snow	None	Clovermay Limited Seventy-One King Henry's Road Residents' Association Limited
Simon True	None	Christchurch Financial Solutions 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.

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 and the Q1 2014 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 as adopted by the EU. The Audited Financial Statements and the Q1 2014 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 31 December 2013 and certain information as at, and for the three months ended, 31 March 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.*

1. 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 31 December 2013 and which may affect the results of operations of the Group in subsequent periods.

1.1 *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 up 8.2 per cent. 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, up 16.7 per cent. 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 upturn 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.

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 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 £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), reducing shareholder, non-profit and supported with profit fund debt securities held in peripheral Eurozone sovereign and supranational debt to £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 £5 million as at 31 December 2013.

1.2 *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 £6 million in 2013 as a result of changes in longevity assumptions and increased by £6 million in 2013 as a result of changes in persistency assumptions (2012: decreased by £5 million and increased by £32 million, respectively; 2011: decreased by £72 million and increased by £18 million, respectively).

1.3 *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.

1.4 ***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 Group's 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.

1.5 ***Equity raise and re-terming of Impala facility***

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 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 is exercised by the Impala Borrowers). The mandatory repayments on the Impala facility were reduced from £125 million per annum to £60 million per annum.

1.6 ***Changes in accounting policies***

(a) 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. The change in accounting policy had no impact on net assets or cash flows as at 31 December 2013 or as at 31 December 2012.

(b) 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 other comprehensive income reduced by £23 million. There was no net impact on the closing 2011 MCEV.

1.7 *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 has announced that Completion of the Divestment occurred on 1 July 2014. For details on the financial effects of the Divestment on the Group, see "*Information on the Group—The Divestment of Ignis Asset Management—The financial effects of the Divestment on the Group*" and "*Financial Information Relating to the Divestment*".

The results of Ignis Asset Management for the period from 1 January to the date of completion will 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 and will be disclosed as discontinued operations. The Guarantor currently expects that Phoenix Life and Ignis Asset Management will continue to be reported as separate segments in those financial statements.

2. 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.

2.1 *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 Group 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.

2.2 ***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.

2.3 ***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.

2.4 ***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.

2.5 ***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.

2.6 ***Reinsurance recoveries***

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

2.7 ***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.

2.8 ***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.

2.9 ***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.

2.10 ***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.

2.11 ***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.

2.12 ***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".

2.13 ***Other operating expenses***

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

2.14 ***Finance costs***

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

3. 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	**2012 Restated[1]**	**2011**
		£ million (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	180	157	170
Net investment income	2,673	4,600	4,920
Total revenue (net of reinsurance payable)	**4,197**	**1,193**	**6,478**
Gain on transfer of business	42	—	—
Other operating income	8	13	12
Net income	**4,247**	**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[2]	565	(603)	(624)
Net (income) / expense attributable to unit holders	252	(111)	131
Other operating expenses[3]	(112)	(125)	(166)
Profit before finance costs and tax	**420**	**557**	**247**
Finance costs	**230**	(215)	(251)
Profit / (loss) for the year before tax	**190**	**342**	**(4)**
Owners' tax	(10)	115	79
Policyholder tax	27	(33)	(173)
Tax credit/(charge)	17	82	(94)
Profit / (loss) for the year	**207**	**424**	**(98)**
Attributable to:			
Owners of the parent	145	407	(131)
Non-controlling interests	62	17	33
	207	**424**	**(98)**

Notes:

(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 "—1.6 Changes in accounting policies" above.

(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".

3.1 *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.

3.2 ***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	**2012**	**2011**
		£ million (audited)	
Fund management based fees	87	63	75
Investment contract income	93	94	95
Fees	**180**	**157**	**170**

The Group's fees for the year ended 31 December 2013 increased by £23 million to £180 million, from £157 million for the year ended 31 December 2012. This movement was primarily due to an increase to third party fund management fees, reflecting the growth in the third party investment management business and strong investment performance in 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.

3.3 ***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	**2012 Restated[(1)]**	**2011**
		£ million (audited)	
Investment income			
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	—	—
Financial assets at fair value through profit or loss			
Held for trading—derivatives	*(314)*	*(354)*	*960*
Designated upon initial recognition	*576*	*1,788*	*595*
Investment property	72	(85)	4
Fair value gains	**344**	**1,349**	**1,556**
Net investment income	**2,673**	**4,600**	**4,920**

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 "—*1.6 Changes in accounting policies*" above.

The Group's net investment income for the year ended 31 December 2013 decreased by £1,927 million, from £4,600 million for the year ended 31 December 2012 to £2,673 million for the year ended 31 December 2013. The 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; 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. The 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.

3.4 ***Total revenue (net of reinsurance payable)***

As a result of the foregoing factors, the Group's total revenue (net of reinsurance payable) increased by £3,004 million between 2012 and 2013, from £1,193 million for the year ended 31 December 2012 to total revenue of £4,197 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.

3.5 ***Other operating income***

The Group's other operating income for the year ended 31 December 2013 decreased by £5 million to £8 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 by £1 million, to £13 million, from £12 million for the year ended 31 December 2011.

3.6 ***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.

3.7 ***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)**

(a) *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. The 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.

(b) *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.

3.8 ***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. The 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.

3.9 ***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	2012 Restated[(1)]	2011
		£ million (audited)	
Administrative expenses	(546)	(585)	(606)
Amortisation of customer relationships and other intangibles	(19)	(18)	(18)
Total administrative expenses	**(565)**	**(603)**	**(624)**

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 "—*1.6 Changes in accounting policies*" above.

The Group's total administrative expenses for the year ended 31 December 2013 decreased by £38 million to £565 million, from £603 million for the year ended 31 December 2012, which is consistent with the Group's closed life fund business model and also due 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.

3.10 ***Net (income) / expense attributable to unit holders***

The Group's net income attributable to unit holders for the year ended 31 December 2013 was £252 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 an increase in third party ownership of certain consolidated investment 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.

3.11 ***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.

3.12 ***Profit before finance costs and tax***

As a result of the foregoing factors, the Group's profit before finance costs and tax decreased by £137 million between 2012 and 2013, from a profit of £557 million for the year ended 31 December 2012 to a profit of £420 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.

3.13 ***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 loan 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. The reduction was primarily due to lower capital values following repayments and lower LIBOR rates over the year.

3.14 ***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 £152 million between 2012 and 2013, from a profit of £342 million for the year ended 31 December 2012 to a profit of £190 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.

3.15 ***Tax credit / (charge)***

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 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	**2012 Restated[(1)]**	**2011**
		£ million (audited)	
Owners' tax credit	10	115	79
Policyholder tax charge	(27)	(33)	(173)
Tax credit / (charge)	**17**	**82**	**(94)**

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 "—*1.6 Changes in accounting policies*" above.

For the year ended 31 December 2013, the Group received a tax credit of £17 million, despite a profit before owners' tax of £217 million. The difference between the actual tax credit of £10 million and the expected charge (based on the UK Corporation tax rate of 23.25 per cent.) of £50 million is primarily driven by a £36 million benefit in deferred tax liabilities as a result of the ongoing reductions in UK corporate tax rates, and £38 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 £76 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 relief at the full rate of tax is not available.

3.16 ***Profit / (loss) for the year***

As a result of the foregoing factors, the Group's profit for the year changed 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 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.

3.17 ***Non-controlling interests***

The Group's non-controlling interests are attributable to the £500 million 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 is now £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 Group's consolidated IFRS financial statements.

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 "*Additional Information—Material Contracts—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 /(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.

4. 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.

4.1 *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 "*—1.6 Changes in accounting policies*" above.

(a) *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
Non profit and unit linked	243	288	206
Longer term return on owner's funds	13	22	37
Management services	32	28	17
Phoenix Life operating profit	**414**	**399**	**395**

(i) 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. The increase was primarily due to higher terminal bonuses following an increase in maturities, and improved bonus rates in certain funds.

(ii) 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. The 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.

(iii) 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.

(iv) Longer term return on owners' funds

The longer term return on owner's 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.

(v) 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.

(b) *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. The 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.

(c) *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.

4.2 ***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 "—*1.6 Changes in accounting policies*" above.

(a) *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.

(b) *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.

(c) *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.

(d) *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 loan 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.

(e) *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.

(f) *Tax attributable to owners*

Tax attributable to owners is discussed in paragraph 3.15 above.

5. GROUP MCEV

5.1 ***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.

5.2 ***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.

(a) Free Assets and Required Capital

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

For the Group's 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.

(b) 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.

(c) 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 allowance for expected future experience where there is sufficient evidence to justify it; for example in allowing for future mortality improvements on annuity business.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

5.3 ***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	(147)	(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.).

(a) *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
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**

(i) 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 impacts 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.

(ii) 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.

(iii) 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.

(b) *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.

(c) *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.

5.4 ***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**

(a) *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.

(b) *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.

(c) *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.

(d) *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 loan 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.

(e) *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 loan 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.

5.5 ***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 external dividend cash payments of £120 million (year ended 31 December 2012: £73 million; year ended 31 December 2011: £55 million).

6. Recent Developments, Current Trading and Outlook

An update on the Group's recent developments, current trading and outlook is included in the 2014 Q1 Interim Management Statement, which is incorporated by reference into this Prospectus.

(a) *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 has announced that Completion of the Divestment occurred on 1 July 2014. For details on the financial effects of the Divestment on the Group, see "*Information on the Group—The Divestment of Ignis Asset Management—The financial effects of the Divestment on the Group" and "Financial Information Relating to the Divestment*".

(b) *Cash Generation*

For the year ended 31 December 2013, the Group had a cash generation target of £650 million to £750 million. For the year ended 31 December 2013, the Group delivered £817 million of cash generation. The Group currently has a long-term cash generation target of £2.8 billion between 2014 and 2019. As at 31 March 2014, £235 million of cash generation had been achieved since 1 January 2014.

(c) *Group IGD Surplus*

As at 31 March 2014, the Group's IGD surplus was estimated to be £1.2 billion, which was the same as at 31 December 2013. The headroom over the Group's IGD capital policy at 31 March 2014 remained at £0.5 billion. As at 31 March 2014, the surplus over the Group's IGD capital policy was estimated to be £363 million. The impact of the Divestment and subsequent debt repayment is expected to be broadly neutral.

(d) *PLHL ICA Surplus*

PLHL ICA is an additional group solvency calculation. As at 31 March 2014, the Group's PLHL ICA surplus was £1.3 billion, compared with £1.2 billion as at 31 December 2013. The impact of the Divestment of Ignis Asset Management and subsequent debt repayment will reduce the PLHL ICA surplus by £0.1 billion. 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.

(e) *Group MCEV*

The Group remains on track to achieve its target of £300 million of incremental MCEV between 2014 and 2016.

(f) *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.

The Divestment and subsequent debt repayment would reduce gearing to 39 per cent. on a pro forma basis as at 31 December 2013.

(g) *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 £363 million at 31 March 2014 following the distribution of cash to holding companies.

(h) *Third party asset inflows*

The Group calculates that £1.1 billion of net third party asset inflows (excluding liquidity funds and assets managed for Guardian Assurance) were generated by Ignis Asset Management in the 3 months to 31 March 2014. Group Assets under Management stood at £69.3 billion at 31 March 2014.

(i) *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) gearing reduced to 40 per cent. by the end of 2016, which is expected to be achieved following the Completion of the Divestment, based on the pro forma position as at 31 December 2013.

7. Liquidity and Capital Resources

7.1 Introduction

(a) *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 Group's Holding Companies are loans and dividends from operating subsidiaries.

(b) *The Group's Life Companies*

The Group's 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 Group's Life Companies principally use their liquidity to pay policyholder benefits (including withdrawals and surrender payments) and operating expenses and to purchase investments.

The Group's 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 Group's Life Companies may distribute to the Group's 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, and the restrictions set out in the Pearl Facility Agreement and the Impala Facility Agreement which are summarised in "*Description of Certain Other Indebtedness—Credit Facilities*".

7.2 ***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 Group's 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 Group's Holding Companies, together with the Group's Holding Companies' outflows.

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**
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**

(a) *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.

(b) *Uses of cash*

(i) 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 loan 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.

(ii) 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.

(c) ***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, consistent with the final maturity of the Impala loan facility in June 2019. The resilience of the cash generation target is demonstrated by the following stress testing as at 31 December 2012:

	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.

7.3 ***Regulatory capital requirements***

(a) *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 Group's 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 Framework Overview*".

(i) 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 £ billion	Surplus
		(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.

(ii) 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.

(iii) 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 Group's Holding Companies.

As at 31 December 2013, Phoenix Life's free surplus was £529 million, compared to £514 million as at 31 December 2012. The increase reflects free surplus generated in the period of £809 million partly offset by £794 million of cash distributed to holding companies. Total free surplus generated in the period of £809 million reflects completion of the legal transfer of the annuity liabilities and other management actions, the inherent release of capital requirements from the run-off of the life funds and the positive impact of increasing yields on capital requirements and policy.

(b) *Group Requirements*

(i) 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 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 31 December 2013	As at 31 December 2012	As at 31 December 2011
		£ billion (unaudited)	
Group capital resources	5.4	5.6	5.6
Group capital resource requirement	(4.2)	(4.2)	(4.3)
IGD surplus	**1.2**	**1.4**	**1.3**
Headroom over capital policy	**0.5**	**0.6**	**0.4**

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 Phoenix Life Limited (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.

The Group's ultimate insurance parent undertaking, the Guarantor, is not within the EEA. Accordingly, the Group's UK life insurance companies, as with all EU life companies in groups where the ultimate insurance parent undertaking is not within the EEA, are also required to submit to their regulator a worldwide IGD calculation performed at the ultimate insurance parent undertaking level. The IGD calculation at the Guarantor level is for reporting purposes only and the Group is not required to ensure that the calculation is positive. The IGD calculations as at 31 December 2013 and 31 December 2012 are shown below, together with the relevant adjustments from the IGD calculation at the PLHL level, which primarily reflect the external bank debt and PIK Documents which are held in the Group above the PLHL level. This capital has been injected into PLHL and certain of its subsidiaries in the form of equity capital and subordinated loans.

	As at 31 December 2013	As at 31 December 2012
	£ billion (unaudited)	
IGD calculation at the PLHL level	1.2	1.4
External bank debt and PIK Documents	(1.7)	(2.4)
Other adjustments	0.5	0.4
IGD calculation at the Guarantor level	**—**	**(0.6)**

(ii) 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 Group's 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 31 December 2013, the Group's PLHL ICA surplus was £1.2 billion, and is calculated as set out in the table below

	As at 31 December 2013	As at 31 December 2012
	£ billion (unaudited)	
Capital resources[1]	1.5	1.3
Capital resource requirements[2]	(0.3)	(0.3)
PLHL ICA surplus	**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 Group's Life Companies including those in relation to the Group's staff pension schemes, offset by Group diversification benefits.

The PLHL ICA surplus as at 31 December 2013 was £1.2 billion (31 December 2012: £1.0 billion). The increase in the surplus was due to capital generation items and positive market movements of £0.9 billion offset by dividend payments, debt financing and repayments (net of the proceeds from the equity raise) of £0.7 billion.

(iii) 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:

Sensitivity analysis	Estimated IGD surplus 31 December 2013	Estimated PLHL ICA surplus 31 December 2013
	£ billion	
Estimated 31 December 2013 position	1.2	1.2
Estimated position following a 20% fall in equity markets	1.2	1.1
Estimated position following a 15% fall in property values	1.2	1.1
Estimated position following a 75 bps parallel increase in yields[1]	1.2	1.2
Estimated position following a 75 bps parallel decrease in yields[2]	1.2	1.1
Estimated position following credit spread widening[3]	1.3	1.1

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 Group's Life Companies but also on its staff pension schemes.

7.4 ***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 31 December 2013	As at 31 December 2012 £ million (audited, except as otherwise indicated)	As at 31 December 2011
Group MCEV	2,378	2,122	2,118
Gross shareholder and hybrid debt at IFRS carrying values:			
—Shareholder debt	*1,857*	*2,537*	*2,694*
—50 per cent. of Perpetual Reset Capital Securities (hybrid debt) (*unaudited*)	*204*	*204*	*204*
Gross shareholder and hybrid debt *(unaudited)*	2,061	2,741	2,898
Difference between IFRS and MCEV carrying values of listed debt(1) *(unaudited)*	200	112	71
Gross MCEV *(unaudited)*	**4,639**	**4,975**	**5,087**
Gearing ratio (per cent.)	**44**	**55**	**57**

Note:

(1) 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 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.

The numerator of the Financial Leverage Ratio as set out in the Conditions differs from the above gearing calculation in that it includes 100 per. cent of the IFRS carrying value of the Perpetual Reset Capital Securities. The above gearing calculation only includes 50 per. cent of the IFRS carrying value of the Perpetual Reset Capital Securities in the numerator given the hybrid nature of that instrument.

Given this difference in the numerator, the Financial Leverage Ratio at 31 December 2013 is calculated as follows:

	As at 31 December 2013 £ million (unaudited)
Group MCEV	2,378
Gross shareholder and hybrid debt at IFRS carrying values:	
—Shareholder debt	*1,857*
—100 per cent. of Perpetual Reset Capital Securities (hybrid debt)	*408*
Gross shareholder and hybrid debt	2,265
Difference between IFRS and MCEV carrying values of listed debt[1] *(unaudited)*	(4)
Gross MCEV ***(unaudited)***	**4,639**
Financial Leverage Ratio (per cent.)	**49**

Note:

(1) 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.

8. 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.

9. Contingent Liabilities

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration. As at 31 December 2013, the Group had no material contingent liabilities.

10. Capitalisation and Indebtedness

10.1 *Capitalisation*

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

	As at 31 December 2013
	£ million (audited)
Share capital[1]	—
Share premium[1]	1,097
Other reserves	—
Shares held by employee trust and Group entities[2]	(13)
Foreign currency translation reserve	93
Retained earnings	732
Total equity attributable to owners of the parent	**1,909**
Non-controlling interests:	
Perpetual Reset Capital Securities[3]	408
UK Commercial Property Trust Limited[4]	370
Total equity	**2,687**

Notes:

(1) Ordinary Shares with a par value of €0.0001 each. As at 31 December 2013, there were 410 million Ordinary Shares authorised and 224.8 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 31 December 2013 was 1,529,477.

(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.

10.2 ***Indebtedness***

The table below sets out the Group's consolidated indebtedness as at 31 March 2014. This table should be read in conjunction with the Audited Financial Statements which are incorporated into this Prospectus by reference as set out in *"Documents Incorporated by Reference"*.

As referred to in the table below, policyholder debt is debt which is owed by the long-term funds or by subsidiaries of the long-term funds of the Group's Life Companies in the Group's consolidated financial statements. Shareholder debt is debt which is owed by the shareholder funds of the Group's Life Companies or outside the Group's Life Companies.

	As at 31 March 2014 £ million (unaudited)
Current debt	
Guaranteed and Secured:	
Shareholder:	
£2,260 million bank loan[(1)]	—
£425 million bank loan[(2)]	23
Unguaranteed and Unsecured:	
Policyholder:	
Limited recourse bonds 2022 7.59 per cent[(3)]	11
Refinancing loan[(4)]	—
Total current debt	**34**
Non-current debt (excluding current portion of long-term debt)	
Guaranteed and Secured:	
Shareholder:	
£425 million bank loan[(2)]	304
£75 million secured C loan note[(5)]	77
£2,260 million bank loan[(1)]	1,182
Policyholder:	
£80 million loan facility[(6)]	80
£150 million term loan facility[(7)]	150
Unguaranteed and Unsecured:	
Policyholder:	
Limited recourse bonds 2022 7.59 per cent.[(3)]	75
Refinancing loan[(4)]	177
Shareholder:	
£200m 7.25 per cent. unsecured subordinated loans[(8)]	153
£100 million PIK Notes and PIK Facility[(9)]	121
Total non-current debt (excluding current portion of long-term debt)	**2,319**

Notes:

(1) On 14 May 2008, PGH (LC1) Limited and PGH (LC2) Limited jointly obtained a £2,260 million loan facility from a syndicate of external banks (the 'Impala Facility'). This facility was split into Tranche loans A, B and C of £1,275 million, £492.5 million and £492.5 million respectively. On 22 February 2013, Tranche A, Tranche B and Tranche C of the Impala Facility were converted into a single tranche term loan facility after a prepayment of £450 million was paid. The terms of this new facility are: (i) repayment instalments of £30 million are due semi-annually on 30 June and 31 December each year; (ii) the facility maturity date is 31 December 2017, with the option for the Group to extend this date to 30 June 2019; and (iii) the facility bears interest at LIBOR plus a margin of 4.75 per cent. per annum which would increase by: (i) 2.25 per cent. per annum after 31 December 2017 if the option to extend the final maturity date to 30 June 2019 is exercised; and (ii) 0.5 per cent. per annum if additional target repayments of £60 million per annum have not occurred within the required period. The additional interest charge applies from the end of the period when the repayment was due until the repayment has been made. The rate will be reduced by 0.25 per cent. per annum with effect from 1 January 2015 if by that date the borrowers have made voluntary repayments of not less than £200 million in addition to all mandatory and target repayments.

(2) £425 million facility agreement entered into jointly by the Pearl Borrowers. The facility is repayable over the period from 30 June 2011 to 30 June 2016, attracting interest at LIBOR plus a margin of 1.25 per cent. The borrowings under the £425 million facility are secured by first fixed and floating charges over all of the assets and undertakings of the Pearl Borrowers (including their respective 50 per cent. shareholdings in PLHL, all real property, book debts, bank accounts, investments, intellectual property and other assets). Phoenix Life Assurance, which is a member of the Group, has a 6.3 per cent. interest as a lender under the facility. The current and non-current portions of this facility as set out in the table above are stated net of Phoenix Life Assurance's interest in the facility. As at 31 March 2014, the gross principal amount outstanding under the facility, which includes both the current and non-current portions of the facility, before taking into account Phoenix Life Assurance's interest in the facility, was £349 million.

(3) In 1998, National Provident Institution raised £260 million of capital through the securitisation of embedded value on a block of existing unit linked and unitised with profit life and pension policies. Following the demutualisation of National Provident

Institution, these were transferred to NPL. The bonds were split between two classes, which ranked pari passu. The £140 million 7.39 per cent. class A1 limited recourse bonds matured on 30 September 2012 and consequently none are outstanding. The £120 million 7.59 per cent. limited recourse bonds with an outstanding principal of £120 million have an average remaining life of 5 years maturing in 2022. NPLL has provided collateral of £44 million as at 31 March 2014 to provide security to the holders of the NPLL recourse bonds in issue.

(4) The Property Reversions loan from Santander UK plc ("**Santander**") was brought into the consolidated financial statements at fair value. It relates to the sale of Extra-Income Plan policies that Santander finances to the value of the associated property reversions. With effect from 1 January 2012, Phoenix Life became party to a loan agreement with Santander. As part of the arrangement Santander receive an amount calculated by reference to the movement in the Halifax House Price Index and Phoenix Life is required to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years.

(5) This loan note has been issued jointly by the Pearl Borrowers. The loan note is repayable in 2024 and attracts interest at LIBOR plus a margin of 1.00 per cent. At the same time as the amendments to the Impala Facility took effect, these loan notes were amended to permit voluntary early redemption. Phoenix Life Assurance, which is a member of the Group, has a 6.3 per cent. interest in the loan note. The outstanding amount of this loan note as set out in the table above is stated net of Phoenix Life Assurance's interest in the loan note. As at 31 March 2014, the gross principal amount outstanding on this loan note, before taking into account Phoenix Life Assurance's interest in this loan note, was £82 million.

(6) In 2008, UKCPT entered into an £80 million revolving loan facility agreement. This loan accrues interest at LIBOR plus a variable margin of 0.50 per cent. to 0.60 per cent. per annum. The lender holds a floating charge over certain assets of UKCPT and its subsidiaries. The repayment date for this facility is 19 June 2015. This facility was fully utilised during 2011 and 2012 in order to increase UKCPT's property portfolio.

(7) On 19 May 2011, UKCPT entered into a £150 million investment term loan facility agreement. The £150 million investment term loan facility agreement accrues interest at LIBOR plus a variable margin of 1.60 per cent. to 2.00 per cent. per annum. The lender holds security over the assets of UK Commercial Property Estates Holdings Limited and UK Commercial Property Estates Limited, both of which are subsidiaries of UKCPT. The repayment date for this facility is 19 May 2018.

(8) Scottish Mutual Assurance Limited issued £200 million 7.25 per cent. undated, unsecured subordinated loan notes on 23 July 2001. The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. With effect from 1 January 2009, as a part of a Part VII transfer, these loan notes were transferred into the shareholder fund of Phoenix Life Limited. In the event of the winding-up of Phoenix Life Limited, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders).

(9) On 14 May 2008, MC1 issued PIK Notes for the value of £154.5 million to Royal London and MC2 obtained a £154.5 million PIK Facility from Royal London. On 2 September 2009, £250 million in aggregate of the PIK Notes and the Facility outstanding (comprising principal and capitalised interest) was assigned to the Guarantor as part of the acquisition of the Original Pearl Business in exchange for the issue of 1.5 million shares and 12.36 million warrants. The acquired PIK Notes and PIK Facility were recognised at their fair value. Interest accrues on the PIK Notes and PIK Facility at LIBOR plus a margin of 2 per cent. unless an election is made by MC1 or MC2 to capitalise the interest, in which case the margin increases to 3.5 per cent. The final maturity date on the PIK Notes and PIK Facility is 30 June 2019.

10.3 *Net financial indebtedness*

The table below sets out the Group's consolidated net financial indebtedness as at 31 March 2014.

	As at 31 March 2014 £ million (unaudited)
Holding Companies' cash and cash equivalents	1,197
Phoenix Life free surplus	363
Liquidity	**1,560**
Current financial receivables	—
Current shareholder debt	—
Current portion of non-current shareholder debt	(143)
Other current shareholder financial debt	—
Current financial debt	**(143)**
Net current financial indebtedness	**1,417**
Non-current shareholder bank loans (including Royal London)	(1,564)
Other non-current shareholder loans[1]	(153)
Non-current financial indebtedness	**(1,717)**
Net financial indebtedness	**(300)**

Note:

(1) Excludes the Perpetual Capital Reset Securities which meet the definition of equity for IFRS reporting purposes.

FINANCIAL INFORMATION RELATING TO THE DIVESTMENT

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.

Shareholders 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 year ended 31 December		
	2013	**2012**	**2011**
		£ million (audited)	
Fees from:			
External customers	48	34	31
Other intra-group segments	102	103	113
Net investment income	7	1	1
Other operating income from intra-group segments	—	5	1
Total income	**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	(98)	(97)	(97)
Non-recurring	(2)	(2)	(2)
	(100)	(99)	(99)
Total operating expenses	**(106)**	**(105)**	**(107)**
Profit before tax	**51**	**38**	**39**
Tax attributable to shareholders' profits	(14)	(10)	(11)
Profit for the year	**37**	**28**	**28**

Reconciliation of operating profit before adjusting items to the segmental result

	For the year ended 31 December		
	2013	**2012**	**2011**
		£ million (audited)	
Operating profit before adjusting items	49	43	46
Amortisation of customer relationships	(3)	(3)	(5)
Non-recurring items	5	(2)	(2)
Profit before tax attributable to owners	**51**	**38**	**39**
Tax attributable to owners	(14)	(10)	(11)
Profit for the year attributable to owners	**37**	**28**	**28**

Consolidated Balance Sheet

	As at 31 December 2013
	£ million (audited)
Provisions	25
Deferred tax	25
Current tax	10
Accruals and deferred income	31
Other payables	13
Total liabilities	**104**
Goodwill	57
Customer relationships	136
Property, plant and equipment	7
Financial investments	44
Prepayments and accrued income	21
Other receivables	15
Cash and cash equivalents	65
Total assets	**345**
Net assets	**241**

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 31 December 2013:

(i) the Divestment and the receipt of the net proceeds from the Divestment; and

(ii) the prepayment of £250 million of the Impala Facility which will be funded from the proceeds of the Divestment.

The unaudited Pro Forma IFRS Financial Information has not been adjusted to reflect any other transactions or results between 31 December 2013 and the date of this Prospectus, except where otherwise indicated in the notes to the unaudited Pro Forma IFRS Financial Information. Specifically, no adjustment has been made to reflect Ignis Asset Management's earnings arising in the period after 31 December 2013 which would accrue to the Group up to, but excluding, 1 July 2014.

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 31 December 2013[(1)]	Pro forma adjustments for the Group: Divestment of Ignis Asset Management[(2)]	Receipt of net proceeds and other divestment adjustments[(3)]	Prepayment of debt[(4)]	Pro forma as at 31 December 2013
			£ million		
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent:					
Share capital	—	—	—	—	—
Share premium	1,097	—	—	—	1,097
Other reserves	—	—	—	—	—
Shares held by employee trust and Group entities	(13)	—	—	—	(13)
Foreign currency translation reserve	93	—	—	—	93
Retained earnings	732	(265)	365	—	832
Total equity attributable to owners of the parent	**1,909**	**(265)**	**365**	**—**	**2,009**
Non-controlling interests:					
Perpetual Reset Capital Securities	408	—	—	—	408
UK Commercial Property Trust Limited	370	—	—	—	370
Total equity	**2,687**	**(265)**	**365**	**—**	**2,787**
Liabilities:					
Pension scheme deficit	137	—	—	—	137
Insurance contract liabilities	43,699	—	20	—	43,719
Financial liabilities:					
—Investment contracts	8,578	—	—		8,578
—Borrowings	2,359	—	—	(250)	2,109
—Deposits received from reinsurers	385	—	—	—	385
—Derivatives	2,156	—	—	—	2,156
—Net asset value attributable to unit holders	5,309	—	—	—	5,309
—Obligations for repayment of collateral received	7,284	—	—	—	7,284
Provisions	53	(25)	21	—	49
Deferred tax	373	(25)	—	—	348
Reinsurance payables	12	—	—	—	12
Payables related to direct insurance contracts	395	—	—	—	395
Current tax	107	(10)	(4)	—	93
Accruals and deferred income	139	(31)	—	—	108
Other payables	351	19	—	—	370
Liabilities classified as held for sale	49	—	—	—	49
Total liabilities	**71,386**	**(72)**	**37**	**(250)**	**71,101**
Total equity and liabilities	**74,073**	**(337)**	**402**	**(250)**	**73,888**
ASSETS					
Pension scheme surplus	160	—	—	—	160
Intangible assets	2,007	(193)	—	—	1,814
Property, plant and equipment	23	(7)	—	—	16
Investment property	1,603	—	—	—	1,603
Financial assets:					
—Loans and receivables	1,977	—	—	—	1,977
—Derivatives	1,948	—	—	—	1,948
—Equities	11,311	—	—	—	11,311
—Fixed and variable rate income securities	35,262	—	—	—	35,262
—Collective investment schemes	6,390	(37)	—	—	6,353
Insurance assets	2,897	—	—	—	2,897
Current tax	6	—	—	—	6
Prepayments and accrued income	460	(21)	—	—	439
Other receivables	739	(14)	—	—	725
Cash and cash equivalents	9,224	(65)	402	(250)	9,311
Assets classified as held for sale	66	—	—	—	66
Total assets	**74,073**	**(337)**	**402**	**(250)**	**73,888**

Notes:

(1) The consolidated statement of IFRS financial position of the Group as at 31 December 2013 has been extracted, without material adjustment, from the 2013 Annual Report and Accounts.

(2) (i) 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 from the historical financial information of Ignis Asset Management set out in "*Financial Information Relating to the Divestment—Financial Information on Ignis Asset Management Limited*", subject to the adjustments detailed in notes 2 (ii) and (iii).

(ii) An adjustment has been made to other receivables and other payables to reflect that trade receivables of £1 million and trade creditors of £32 million between Group entities and Ignis will no longer be eliminated on consolidation, and will now be recognised as external to the Group.

(iii) An adjustment has been made to financial assets of £7 million which represents assets remaining with the Group following completion.

(3) The receipt of net proceeds and other divestment adjustments with a net retained earnings impact of £365 million comprises the following amounts:

(i) Net cash proceeds on Completion of £390 million less the associated costs of divestment of £6 million, totalling £384 million. Additional cash proceeds of £18 million in consideration for Ignis Asset Management's capital resources that are in excess of regulatory capital requirements as at the pro forma date and other Completion adjustments. These amounts have been calculated in accordance with the terms of the Divestment Agreement and have been settled either as a pre-completion dividend or as part of the Completion Statement adjustments.

(ii) An adjustment of £16 million to provisions to reflect the Group's estimated liability under the terms of the Divestment Agreement in respect of employee compensation payments.

(iii) Following the Divestment, it is anticipated that certain investment management fees incurred by the retained Group will attract VAT where previously they were excluded from charge and that this VAT will be irrecoverable. An adjustment of £20 million has been made to reflect the impact on insurance liabilities of the expected increase in investment management expenses. An adjustment has also been made to reflect a provision of £5 million for compensation to policyholders for increased investment management expenses. A £4 million adjustment to current tax has also been recognised to reflect tax relief available on these items.

(iv) No provision has been recognised for the purchase price adjustment as at the time of compiling this pro forma information there was no probable liability under the guarantee.

(4) Adjustments have been made to reflect the prepayment of £250 million of the Impala Facility made in connection with the Impala Facility Agreement, to be funded by part of the net consideration received from the Divestment.

(5) Borrowings comprise the following items:

		Pro forma adjustments for the Group (unaudited)			
	As at 31 December 2013 (audited)	**Divestment of Ignis Asset Management**	**Receipt of net proceeds and other divestment adjustments**	**Prepayment of debt**	**Pro forma as at 31 December 2013**
			£ million		
Policyholder borrowings	**502**	**—**	**—**	**—**	**502**
Shareholder borrowings:					
£200m 7.25 per cent. unsecured subordinated loan	151	—	—	—	151
£75 million secured loan note	76	—	—	—	76
£425 million syndicated facility	327	—	—	—	327
£2,260 million syndicated facility	1,182	—	—	(250)	932
£100 million PIK Notes and PIK Facility	121	—	—	—	121
Total shareholder borrowings	**1,857**	**—**	**—**	**(250)**	**1,607**
Total borrowings	**2,359**	**—**	**—**	**(250)**	**2,109**

(6) As at 31 December 2013, the Guarantor had 224,818,301 ordinary shares in issue.

Effect on IFRS earnings

If the transactions referred to above had occurred on 1 January 2013, the impact on the Group's IFRS operating earnings for the year ended 31 December 2013 would have been a decrease of £49 million, reflecting Ignis Asset Management's contribution to the Group's operating results during that period. IFRS earnings after tax would have increased for the year ended 31 December 2013 as the net gain on divestment after associated divestment costs and reduced interest charges on the Impala Facility would have exceeded the after tax earnings of Ignis Asset Management.

SECTION C: ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA IFRS 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

3 July 2014

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 3 July 2014 (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 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 31 December 2013. 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 31 December 2013:

(i) the Divestment and the receipt of the net proceeds; and

(ii) the prepayment of £250 million of the Impala Facility, which will be funded from proceeds of the Divestment.

The unaudited Pro Forma MCEV Financial Information has not been adjusted to reflect any other transactions or results between 31 December 2013 and the date of this Prospectus, except where otherwise indicated in the notes to the unaudited Pro Forma MCEV Financial Information. Specifically, no adjustment has been made to reflect Ignis Asset Management's earnings arising in the period after 31 December 2013, which would accrue to the Group up to, but excluding, 1 July 2014.

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.

Unaudited Pro Forma Statement of Group MCEV

		Pro forma adjustments for the Group (unaudited)			
	As at 31 December 2013 (audited)(1)	Divestment of Ignis Asset Management(2)	Receipt of net proceeds and other divestment adjustments(3)	Prepayment of debt(4)	Pro forma as at 31 December 2013
			£ million		
Group MCEV(5)	2,378	(101)	338	—	2,615

Notes:

(1) The Group MCEV as at 31 December 2013 has been extracted, without material adjustment, from the 2013 Annual Report and Accounts.

(2) An adjustment of £101 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 £265 million as noted in Section A of Part V: "*Unaudited Pro Forma IFRS Financial Information relating to the Group*" of this Prospectus, adjusted to add back £164 million of intangibles net of related deferred tax, which are not recognised on an MCEV basis.

(3) The net proceeds and other divestment adjustments are as detailed in Section A of Part V: *"Unaudited Pro Forma IFRS Financial Information relating to the Group"* of this Prospectus. The adjustment to MCEV of £338 million reflects the IFRS net asset impact of £365 million, subject to the following adjustments:

 (i) £(3) million for the increased impact of incurring VAT on future investment management expenses when calculated on an MCEV basis;

 (ii) £(24) million reduction in the value of in-force business in order to reflect the fact that the divestment adjustments and the repayment of £250 million of the Impala Facility reduces the expected tax attributes available to the Group to relieve tax on the emerging surpluses from the Group's operating businesses. These tax attributes are not valued on an IFRS basis.

(4) The prepayment of debt is as detailed in Section A of Part V: "*Unaudited Pro Forma IFRS Financial Information relating to the Group*" of this Prospectus.

(5) Included within Group MCEV is shareholder debt at the following values:

	As at 31 December 2013 (audited)	Pro forma adjustments for the Group (unaudited) Divestment of Ignis Asset Management	Receipt of net proceeds and other divestment adjustments	Prepayment of debt	Pro forma as at 31 December 2013
			£ million		
Shareholder debt:					
Bank debt at face value:					
£425 million syndicated facility	327	—	—	—	327
£75 million secured loan note	76	—	—	—	76
£2,260 million syndicated facility	1,182	—	—	(250)	932
£100 million PIK Notes and PIK Facility	121	—	—	—	121
Tier 1 Bonds at market value[(a)]	350	—	—	—	350
PLL subordinated debt at market value[(b)]	205	—	—	—	205
Total shareholder debt	**2,261**	**—**	**—**	**(250)**	**2,011**

Notes:

(a) 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.

(b) The PLL subordinated debt (£200m 7.25 per cent. unsecured subordinated loan notes) is shown above at market value.

Effect on MCEV earnings

If the transactions described above had occurred on 1 January 2013, the impact on the Group's MCEV operating earnings for the year ended 31 December 2013 would have been a decrease of £49 million, reflecting Ignis Asset Management's contribution to the Group's operating results during that period. MCEV earnings after tax would have increased for the period as the net gain on divestment after associated divestment costs and reduced interest charges of the Impala Facility would have exceeded the after tax earnings of Ignis Asset Management.

SECTION E: ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA MCEV FINANCIAL INFORMATION

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c/o Maples Corporate Services Limited
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Ugland House
Grand Cayman
KY-11o4, Cayman Islands

3 July 2014

Dear Sirs

We report on the unaudited Pro Forma MCEV financial information (the "**Pro Forma MCEV Financial Information**") set out in Section C "Unaudited Pro Forma MCEV Financial Information Relating to the Group" in the prospectus dated 3 July 2014 (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 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 31 December 2013. 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

REGULATORY FRAMEWORK 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, Luxembourg, Guernsey and Jersey and to applicable laws in the US. In addition, Opal Re, a Group company and reinsurer for certain of the Group's Life Companies, is subject to regulation under the laws of Bermuda and the rules of the BMA.

1. 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 Group's Life Companies in the UK are currently dual regulated by the FCA (for conduct) and PRA (for prudential), whilst others are solely regulated by the FCA (for both conduct and prudential matters). This overview addresses the regulatory framework after 1 April 2013.

1.1 *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.

1.2 *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) but 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.

1.3 ***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.

2. REGULATION APPLICABLE TO THE GROUP'S INSURANCE BUSINESS

2.1 ***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.

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.

2.2 *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.

2.3 *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.

2.4 *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.

2.5 ***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.

2.6 ***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.

2.7 ***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 system 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) management expenses levy ((a) a base costs levy, that relates to the cost of running the FSCS each year and (b) a specific cost for the running costs attributable to a specific funding class) and ii) compensation costs levy which relates primarily to the costs incurred by the FSCS in paying compensation.

2.8 ***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 has 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.

2.9 ***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 may apply regardless of whether or not the insurer is actively selling its products.

2.10 ***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 and life insurance policies and the annuity rates which may be offered when pension policies mature.

2.11 ***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 (at Pillar 2) 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 Group's Life Companies are operated with an internally set additional buffer over the ICA (currently 38 per cent. of ICA for Phoenix Life Limited, 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 are allocated additional capital requirements to the extent that capital resources held outside the Life Companies cannot be applied towards risks arising outside the Life Companies. In practice the capital required to cover risks arising outside the Life Companies is generally held 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 at Pillar 2) 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 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 "**established surplus**"—the excess of assets over liabilities in the long-term fund, as determined by an actuarial investigation—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 to cover the actuarially determined value of the insurance liabilities. 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 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 have been proposed that could adversely affect the Group*").

2.12 *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 in respect of the period covered by his report affecting those classes of with profit business of the firm.

2.13 *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. Further proposals for reforms to the with profit regime may follow.

The PRA has also mandated 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.

2.14 ***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.

2.15 ***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 "*—New EU solvency framework equivalence consideration*" below.

2.16 ***Transfer 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.

2.17 ***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.

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 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.

The FSA proposed a new prudential rulebook for insurers "**SOLPRU**" which would transpose the Solvency II Level 1 directive (the Level 2 rules will be directly applicable and will not therefore require transposition). SOLPRU will replace the other prudential rulebooks for firms which are subject to the Solvency II regime. The FSA published two consultation papers on the contents of SOLPRU. A policy statement in respect of one consultation was expected in the fourth quarter of 2013 with another in the second quarter of 2014.

As well as transposing the Level 1 rules, SOLPRU and proposed amendments to the FCA's Conduct of Business Sourcebook also contain provisions giving effect to the various EU Member State discretions which arise under the directive. These areas include:

- the rules affecting long term insurance products the benefits under which are linked to specific funds, property or indices, and
- proposed new rules applying to with profits products bringing the regulation of those products into line with Solvency II.

The final version of SOLPRU and of the proposed amendments to FCA's Conduct of Business Sourcebook will be affected by the Omnibus II directive.

2.18 *New EU solvency framework equivalence consideration*

The European Commission is continuing to develop the new Solvency II prudential framework for insurance companies. This project 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 2, 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 2. It will contain rules, many of which are new, covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the maintenance of a minimum capital requirement ("**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 to be 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. The Level 2 rules, which will supplement the Solvency II directive with more detail, remain under discussion and are expected to be adopted and finalised in 2014 following the adoption of Omnibus II directive, subject to the European Parliament not objecting to those rules. 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.

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.

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. However, the Directors note that the technical specifications may result in a significant increase in the capital requirements of the industry. 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 specifications are appropriate for the UK insurance market.

The Group expects that the increase in capital requirements will be significantly mitigated by the introduction of transitional measures, 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 of these measures, for which approval by the PRA will be required.

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 temporary 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, its Solvency Capital Requirement 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, 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 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. 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.

2.19 *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**"). These are still being negotiated and it is not expected that the implementation date for MiFID II will be before 2015 at the earliest.

2.20 ***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, the Prudential Sourcebook for Banks, Building Societies and Investment firms and the new Prudential Sourcebook for Investment Firms (IFPRU).

These rules implement the requirements of EU legislation relating to the prudential supervision of credit institutions (i.e. banks and building societies) and investment firms, including the Capital Requirements Regulation (Regulation 575/2013) and Capital Requirements Directive (2013/36/EU) together, CRD IV, which aim to implement the Basel III reforms finalised by the Basel Committee on Banking Supervision in December 2010. EU Member States were required to transpose the CRD IV Directive into national legislation and regulation by 31 December 2013.

3. BERMUDA INSURANCE REGULATIONS APPLYING TO A CLASS C INSURER IN BERMUDA

3.1 ***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 "**Authority**").

3.2 ***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".

3.3 ***Minimum Paid-Up Share Capital***

Class C insurers are required to maintain fully paid up share capital of at least $250,000.

3.4 ***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 Authority 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 Authority 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 Authority but the GAAP financial statements are available for public inspection.

3.5 *Annual Statutory Financial Return and Annual Capital and Solvency Return*

A Class C insurer is required to file with the Authority 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 Authority 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.

3.6 *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% 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 ECR is being phased in and for 2014, the ECR shall be 75% of the calculated amount and for all financial years thereafter, the applicable ECR shall be the full amount determined by the appropriate capital requirement 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% of its ECR. The TCL serves as an early warning tool for the Authority 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 Authority and, within 14 days thereafter, file a written report with the Authority 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 Authority in writing and within 14 days of such notification file with the Authority 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 Authority with (i) unaudited interim statutory financial statements covering such period as the Authority 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.

3.7 ***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.

3.8 ***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, FCA, a Bermuda resident and a director of Opal Re.

It is the duty of the principal representative to notify the Authority 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 Authority 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 Authority, the principal representative must furnish the Authority with a written report setting out all the particulars of the case that are available to the principal representative.

3.9 ***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.

3.10 ***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.

3.11 ***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.

3.12 ***Minimum margin of solvency and restrictions on dividends and distributions***

The Insurance Act provides a minimum margin of solvency for long-term insurers, such as Opal Re. A long-term insurer is required to maintain a minimum solvency margin whereby its long-term business assets exceed its long-term business liabilities by not less than $250,000.

In addition, if at any time it fails to meet its minimum solvency margin, Opal Re is required within 30 days after becoming aware of such failure or having reason to believe that such failure has occurred, to file with the BMA a written report containing certain information.

Additionally, under the Bermuda Companies Act, Opal Re may only declare or pay a dividend if Opal Re has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realisable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

3.13 ***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 Authority.

3.14 ***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 Authority. 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 Authority 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 2 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 Authority.

3.15 ***Fit and Proper Controllers***

The Authority 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% 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 Authority in writing that he has become such a controller.

3.16 ***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.

3.17 ***Disclosure of information***

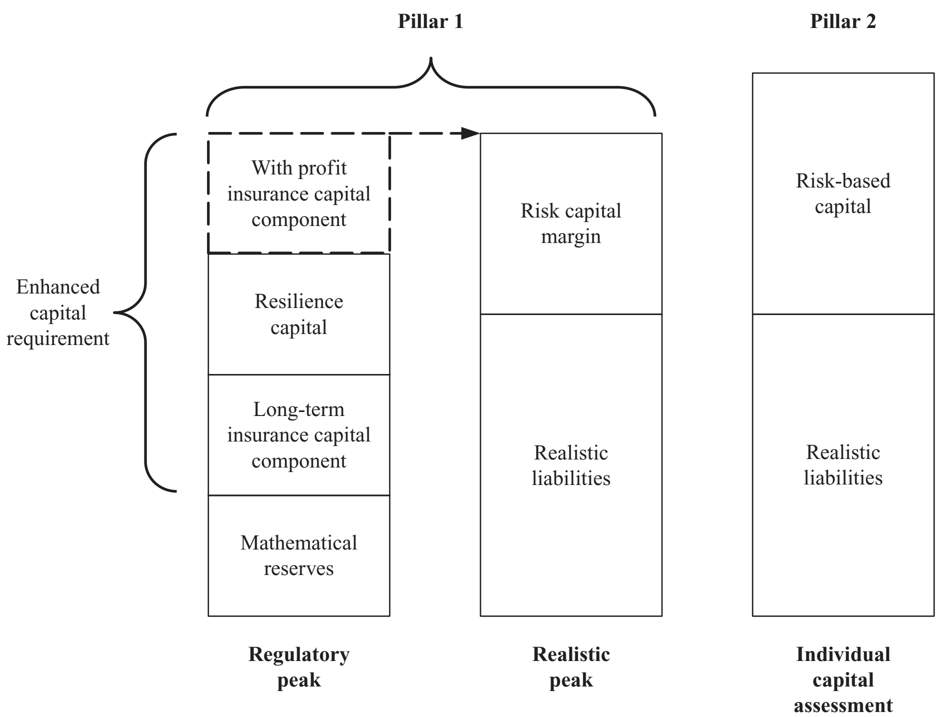
The BMA may assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda, but is subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection 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.

4. General Overview of the UK Regulatory Capital Framework

4.1 *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.

4.2 *Pillar 1*

(a) *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.

(b) *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.

4.3 ***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 Group's Life Companies are operated with an internally set additional buffer over the ICA (currently 38 per cent. of ICA for Phoenix Life Limited, the Group's largest Life Company).

4.4 ***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

1. Overview

The Group intends to raise finance through the issue of the Bonds by 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 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.

Summary of restrictions on distributions in the Group's finance documents

- The Pearl Debt restricts certain distributions out of the Pearl banking silo and sets out conditions for making permitted distributions. Breach of these restrictions would trigger an event of default under the Pearl Facility Agreement and the Lender Loan Notes.
- In the event of breach of a PGH2 embedded value covenant, the Pensions Agreement restricts distributions made by PGH2 to the Pearl Borrowers to enable the Pearl Borrowers to make certain payments.
- The Impala Facility Agreement restricts certain distributions out of the Impala banking silo and sets out conditions for making permitted distributions (including payment of target repayment amounts and/or matching dividend prepayments). Breach of these restrictions would trigger an event of default under the Impala Facility Agreement only. The Impala Facility Agreement also incorporates the Group Dividend Restriction which obliges the Impala Borrowers to make matching prepayments to the extent that the aggregate amount of Impala Dividends and dividends and other distributions paid by the Pearl Covenant Group and/or Opal Re exceed the specified thresholds.
- The Opal Re Contribution Agreement requires: (i) Opal Re (at the Guarantor's instruction) to pay dividends declared in favour of the Guarantor to the Pearl Borrowers; and (ii) if the Guarantor receives amounts from Opal Re, the Guarantor to contribute such amounts to the Pearl Borrowers, until all amounts outstanding under the Pearl Facility Agreement have been repaid at which time such amounts shall be subject to the restrictions in the 2013 Pearl/Opal Re Side Letter.
- The 2013 Pearl/Opal Re Side Letter restricts the Pearl Borrowers' and Opal Re's ability, after full repayment of the Pearl Facility Agreement and the Lender Loan Notes, to freely pay dividends and dispose of assets when a Target Repayment Event exists under Impala unless the Guarantor applies the lesser amount of (i) the amount of dividend received from the Pearl Borrowers or Opal Re; and (ii) the aggregate amount of the Target Repayment Arrears and/or the outstanding Scheduled Impala Repayment Amounts, in prepayment of the Impala Facility Agreement.
- The Royal London Agreements contain similar restrictions to those set out in the Impala Facility Agreement, however breach of most of these restrictions will not trigger an event of default until the Impala Facility Agreement has been discharged.

Consideration of restrictions on distributions from the Pearl banking silo and the Impala banking silo and the ability of the Group to service third party debt issued/borrowed by the Issuer

(a) Pearl banking silo

The Pearl Debt permits the distribution in each Relevant Period of up to £58 million (subject to an adjustment mechanism) payable from net cash flows. Where net cashflows exceed £58 million, all excess amounts must be applied in prepayment of the Pearl Facility Agreement. Note the net cashflows are subject to a £50 million buffer amount.

Upon repayment of the Pearl Debt:

- the Pearl dividend restriction will fall away. However, the ability to pay dividends out of the Pearl banking silo will continue to be restricted by the Group Dividend Restriction in the Impala Facility Agreement (set out below). The Group Dividend Restriction limits the payment of dividends out of the Pearl and Impala banking silos and by Opal Re to £130 million in 2014 (increasing by £10 million per annum in each Relevant Period thereafter) unless matching dividend prepayments are made (as described below); and

- if a Target Repayment Amount is due and outstanding, the 2013 Pearl/Opal Re Side Letter will prevent the payment of dividends out of the Pearl banking silo until the Target Repayment Amount has been paid or will permit such dividends where the Guarantor pays the amount of such dividends to the Impala Borrowers for prepayment.

(b) Impala banking silo

Assuming the conditions for paying an Impala Dividend have been satisfied (set out in "*Description of Certain Other Indebtedness—Credit Facilities—Impala Facility*"), the Impala Facility Agreement permits the payment of an Impala Dividend up to £70 million in 2014, such amount increasing by £5 million in each Relevant Period thereafter.

If the Impala Borrowers intend to pay Impala Dividends exceeding the amount initially permitted for the Relevant Period, they will be required to make additional matching dividend prepayments in a ratio of (matching dividend repayment: excess Impala Dividend amount) 2:1 up to £10 million; and 3.3:1 up to £20 million, in excess of the initial amount permitted; and 10:1 thereafter. Furthermore, if the limits set out in the Group Dividend Restriction are exceeded the Impala Borrowers will be required to make further matching dividend prepayments of 2:1 up to £20 million; and 3.3:1 up to £40 million, in excess of the initial amount permitted; and 10:1 thereafter. Note that the matching dividend prepayments made in respect of the Impala Dividend Restriction and the Group Dividend Restriction shall not be double counted.

If the Impala Borrowers:

- have paid the Target Repayment Amount for the Relevant Period, such payments will reduce the Impala Borrowers' obligation to make matching dividend prepayments; and
- have not paid the Target Repayment Amount for the Relevant Period, any matching dividend prepayments made will reduce the Impala Borrowers' obligation to make target repayments,

in each case on a pound-for-pound basis in respect of the initial dividend amount for the Relevant Period (other than in respect of the 2013 Relevant Period, as set out in "*Description of Certain Other Indebtedness—Credit Facilities—Impala Facility*").

(c) Other agreements

Provided the PGH2 embedded value covenants are complied with, the 2012 Pensions Agreement will not block the payment of Pearl dividends.

The Opal Re Contribution Agreement prevents Opal Re from distributing any cash to the Guarantor. In paying dividends to the Pearl Borrowers (in accordance with the Guarantor's directions) cash distributed by Opal Re will be subject to the Pearl Debt restrictions and shall be subject to the £58 million dividend cap.

Quantum of distributions available for debt service

Assuming the Group has sufficient regulatory capital to make the intended distributions and the conditions/requirements of the relevant finance documents are complied with, the Group should be able to distribute £123 million from the Pearl and Impala banking silos without having to make additional matching dividend prepayments (in addition to the scheduled and target repayments). The Group will be able to distribute more than this amount provided it makes the matching dividend prepayments required in connection with the Impala and Group Dividend Restrictions set out in the Impala Facility Agreement. However, given the matching dividend prepayment ratios, the Impala Borrowers would be required to make significant prepayments in order pay dividends in excess of £123 million.

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 Bonds.

2. Pearl Facility

The Pearl Borrowers are (a) borrowers under a facility agreement dated 15 November 2006 as amended and restated (the "**Pearl Facility Agreement**") entered into with the Pearl Lenders, the bookrunners, the arrangers, the Pearl Facility Agent and the security trustee described therein, (b) issuers of the Lender Loan Notes instruments dated 2 September 2009 issued to, amongst others, the Pearl Lenders and (c) pursuant to an assignment made by the Pearl Lenders of the debt to the Guarantor, holders of £325 million of principal amount due under the Pearl Facility Agreement (the "**Guarantor Subordinated Debt**").

(i) Guarantor Subordinated Debt

The Guarantor Subordinated Debt was converted upon assignment to the Guarantor into a specific class of intra-group debt for the purposes of the Pearl Intercreditor Agreement (as defined below) and was subordinated to the outstanding indebtedness under the Pearl Facility Agreement and the Lender Loan Notes.

(ii) Lender Loan Notes

The Lender Loan Notes were issued by the Pearl Borrowers pursuant to separate Lender Loan Note instruments. Each of the Pearl Borrowers has guaranteed the indebtedness of the other under such Lender Loan Notes and has granted a second priority pledge of all of their respective assets in support of their respective obligations under the Lender Loan Notes.

Under the original Lender Loan Note instruments, the principal amount of the Lender Loan Notes was repayable in one instalment on 2 September 2024 (the "**Maturity Date**"), being the fifteenth anniversary of the date of the Lender Loan Notes. The Maturity Date may be postponed at the option of any holder of Lender Loan Notes upon the occurrence of certain events, including without limitation certain mergers, reorganisations or asset dispositions by the Guarantor (a "**Major Transaction**"). The Lender Loan Note instruments permit the Pearl Borrowers to voluntarily redeem the Lender Loan Notes in a minimum amount of £2,000,000 (or if less the aggregate principal amount of Lender Loan Notes then outstanding) at any time prior to the Maturity Date subject to prior discharge of all amounts outstanding under the Pearl Facility Agreement and all related hedging liabilities and the payment of any capitalised interest on the principal amount of the Lender Loan Notes being redeemed and the payment of any accrued unpaid interest and amounts due for late payment and break costs (if any).

The Lender Loan Notes bear interest at a rate that is equal to the sum of LIBOR plus 1.00 per cent. plus mandatory costs, if any (plus an additional 1.00 per cent. if such interest is overdue, accruing on a daily basis). Mandatory costs compensate the Lender Loan Note holders for the costs of compliance with the requirements of the Bank of England, the PRA and/or the European Central Bank. Interest is payable semi-annually in cash unless the relevant Pearl Borrower elects that interest be capitalised and added to the principal amount. As at 31 December 2013, the outstanding principal amount including capitalised interest was £81 million (the "**Pearl Loan Notes Debt**").

On the Maturity Date, the Pearl Borrowers shall repay the principal (including any capitalised interest), accrued unpaid interest and amounts due for late payment (if any).

The Pearl Borrowers make certain representations and warranties and agree to be bound by certain covenants set out in the Pearl Facility Agreement (including the financial covenants set out therein) by incorporating the same by way of reference into the Lender Loan Notes. The events of default include the failure to pay any amount payable pursuant to the Lender Loan Notes (which, if caused by an administrative error only, is not cured within three business days) and a cross-default with certain provisions of the Pearl Facility Agreement.

(iii) Pearl Facility Agreement

As at 31 December 2013, the outstanding principal amount under the Pearl Facility Agreement was £350 million (the "**Pearl Senior Debt**" and, together with the Pearl Loan Notes Debt, the "**Pearl Debt**") with a maturity date of 30 June 2016 (the "**Termination Date**"). The Pearl Senior Debt is repayable in annual instalments of £25 million on 30 June of each year from 2013 to and including 2015, with £299 million (or such lesser amount as may then be outstanding) due and payable on the Termination Date.

Neither Pearl Borrower is permitted to reborrow any part of the Pearl Senior Debt which has already been repaid. The Pearl Borrowers may from time to time voluntarily prepay the Pearl Senior Debt in whole or in part with a minimum prepayment of £2 million. Any prepayment must be made with any accrued interest on the amount to be repaid. The Pearl Senior Debt is subject to mandatory prepayments from surplus cash (as described below) and other specified proceeds.

The Pearl Senior Debt bears interest at a rate that is equal to the sum of LIBOR plus 1.25 per cent. per annum plus mandatory costs, if any. Mandatory costs compensate the Pearl Lenders for the costs of compliance with the requirements of the Bank of England, the PRA and/or the European Central Bank. The Pearl Borrowers may select interest periods of three, six, nine or 12 months.

(iv) Restricted distributions and payments

Subject to certain exceptions, including those described below, the Pearl Facility Agreement provides that neither Pearl Borrower nor any of their subsidiaries (collectively, the "**Pearl Covenant Group**" but excluding Impala and its subsidiaries), may:

- pay, repay or prepay any principal, interest or other amount in respect of (x) outstanding debts between the Guarantor and the Pearl Borrowers or (y) indebtedness owing to the Guarantor, certain other shareholders and other related parties (collectively, the "**Pearl Restricted Persons**"); or
- make any investment in, pay any fee to, or make an advance or other payment to, any Pearl Restricted Person.

Further, subject to certain exceptions, including those described below, each of the Pearl Borrowers may not:

- declare or pay any dividend or other distribution of any kind on or in respect of any of its shares; or
- reduce, return, purchase, repay, cancel or redeem any of its shares.

Subject to the conditions described below, such restrictions on distributions and payments do not apply to, among other things, the following payments:

- an amount of up to £2.5 million per annum for payment of head office and administrative costs of the Guarantor;
- payment of any amount payable under the Pearl finance documents which is permitted by the Pearl Intercreditor Agreement; and
- payment to the Guarantor of up to £58 million in each year from surplus cash (defined in the Pearl Facility Agreement as "**Surplus Amount**", being certain net cash flows after, among other things, capital and debt servicing subject to a buffer of £50 million). If surplus cash in a year exceeds £58 million, all excess amounts shall be applied in mandatory prepayment of the Pearl Senior Debt.

However, if a "**Default**" is continuing under the Pearl Facility Agreement the "**Surplus Amount**" must be paid into an account held by a Pearl Borrower with the Pearl Facility Agent or the security trustee which is subject to security in favour of the security trustee under the Pearl Facility.

Other than the £2.5 million per annum head office and administrative costs, no payment may be made to the Guarantor unless the following conditions are satisfied:

- no default is continuing under the Pearl Facility Agreement;
- none of the specified financial covenants have been breached (including certain financial covenants the breach of which will not be an event of default under the Pearl Facility Agreement but which will prevent payments being made to the Guarantor (a "**Payment Suspension**"));
- delivery to the Pearl Facility Agent of financial information and certificates relating to the Pearl Covenant Group as at the most recent semi-annual calculation date;
- all amounts of interest outstanding in relation to the Pearl Facility Agreement have been paid;
- the amount of the payment is not such that, if the payment had been made immediately prior to the most recent semi-annual calculation date, the value of the assets in the accounts of Phoenix Life Holdings would be less than the value required to be retained by Phoenix Life Holdings under a subordinated loan facility agreement entered into with certain of its Life Company subsidiaries (the "**Subordinated Loan Facility Agreement**");

- the PRA has not varied or cancelled the authorisation of any material member of the Pearl Covenant Group or imposed any other requirement or taken other actions, which would reasonably be expected to prevent any material member of the Pearl Covenant Group from making a payment to any other member of the Pearl Covenant Group or any Pearl Borrower from making any required payment to the Pearl Lenders.

The payments permitted to be made to the Guarantor may be made in any manner, directly or indirectly, including but not limited to, repayment under or entry into debt arrangements with the Guarantor and the Pearl Covenant Group or by way of dividend.

(v) Representations, warranties and covenants

The Pearl Facility Agreement contains representations and warranties, covenants, prepayment provisions and events of default customary for loan agreements for similar financings.

Affirmative covenants, subject to customary terms and conditions and other negotiated exceptions, require the Pearl Borrowers to, among other things:

- provide to the Pearl Facility Agent annual and semi-annual financial statements and relevant compliance certificates relating to, among other things, compliance with financial covenants;
- provide monthly certificates giving financial information;
- maintain all Pearl Covenant Group pension schemes substantially in accordance with the governing provisions of such scheme where failure to do so would reasonably be expected to have a material adverse effect;
- ensure that the financial covenants are met, including that:

  (i) at each semi-annual calculation date the ratio of (a) the aggregate principal amount of the Pearl Senior Debt and the net mark-to-market value of the hedging relating to the Pearl Senior Debt to (b) the sum of the embedded value of the Pearl Covenant Group adjusted by any liabilities and/or any surplus in respect of the Pearl Group Staff Pension Scheme minus the lower of £600 million and the Gilts-Based Deficit, is less than 70 per cent.;

  (ii) at each semi-annual calculation date for the relevant projection period the ratio of (a) certain projected Pearl Covenant Group cash flows and free cash to (b) certain scheduled Pearl Covenant Group debt payment obligations is greater than 125 per cent.;

  (iii) at each semi-annual calculation date for the relevant period the ratio of (a) certain Pearl Covenant Group historical cash flows to (b) certain Pearl Covenant Group historical debt service is greater than 105 per cent.;

  (iv) the capital resources of each insurance subsidiary are greater than the higher of its capital resources requirement and its ICA requirement;

  (v) the embedded value of PGH2 (excluding any interest in Impala) will be at least (a) 140 per cent. of whichever is the lower of £600,000,000 and 60 per cent. of the Gilts Based Deficit (as defined in "*Additional Information—Material Contracts—Pearl Group Staff Pension Scheme* Agreements") and (b) 110 per cent. of the Gilts Based Deficit less 50 per cent. of the projected investment outperformance over gilts to 30 June 2031;

  (vi) the aggregate capital resources of the insurance subsidiaries exceed the aggregate of (a) the aggregate ICA requirement of the insurance subsidiaries and (b) the aggregate ICG requirement of the Pearl Covenant Group; and

  (vii) the EEA GCR is greater than 105 per cent. of the EEA GCRR.

A breach of these affirmative covenants will trigger an event of default and a breach of related financial covenants at a higher threshold will result in a Payment Suspension.

Restrictive covenants, subject to customary terms and conditions and other negotiated exceptions, include limitations, including between the silos, on:

- amalgamation, demerger, merger, consolidation or corporate reconstruction (other than a permitted merger as set out under the Pearl Facility Agreement);
- changes in business (including underwriting any new business that is not long-term insurance business);
- acquisitions, investments, loans and guarantees;
- entering into, or investing in, any joint venture;
- granting security over any assets;
- asset disposals;
- amending certain inter-company loan agreements or entering into outsourcing arrangements;
- entering into or amending certain reinsurance arrangements;
- entering into certain hedging arrangements;
- transactions with affiliates; and
- Phoenix Life Holdings conducting business or holding assets and incurring liabilities.

(vi) Events of default

The events of default under the Pearl Facility Agreement are customary, and include the following:

- a Pearl Borrower fails to pay any amount payable pursuant to the Pearl Facility Agreement or related finance documents (and such default, if caused by an administrative error only, is not cured within three business days);
- a breach of certain financial covenants subject to a 45 day grace period in certain cases or an equity cure right in others;
- a Pearl Borrower does not comply with any other provision of the Pearl Facility Agreement or related finance documents (and such failure to comply is not cured within 15 business days);
- any representation or statement made or deemed to be made by a Pearl Borrower in the Pearl Facility Agreement or related finance documents or security documents is incorrect or misleading (and such misrepresentation is not cured within 15 business days);
- certain default, acceleration and/or cancellation events with regard to other financial indebtedness of members of the Pearl Covenant Group or of lender commitments with respect thereto (provided that the aggregate amount of relevant indebtedness or commitment is £5.0 million or more);
- certain bankruptcy or insolvency events occur with respect to a Pearl Borrower or a material subsidiary;
- any expropriation, attachment or analogous process affects any material asset of a Pearl Borrower or a material subsidiary in relation to indebtedness of at least £5.0 million and is not discharged within 15 business days;
- any security document, any guarantee in, or any subordination under the Pearl Facility Agreement or certain related finance documents is not in full force and effect or any security document does not create, for the benefit of the Pearl Lenders, the security which it is expressed to create;
- any party (other than a Pearl Lender or a hedging bank) fails to comply with its obligations under the Pearl Intercreditor Agreement (as defined below) and, in the opinion of two-thirds of the Pearl Lenders, the interests of the Pearl Lenders under the Pearl Facility Agreement or any related finance document are materially prejudiced by such failure;
- any Pearl Borrower repudiates or evidences an intention to repudiate the Pearl Facility Agreement or any related finance document;
- any material subsidiary ceases to be a wholly-owned subsidiary of Phoenix Life Holdings;
- any of the constitutional documents of a Pearl Borrower, certain agreements relating to Opal Re or the Subordinated Loan Facility Agreement are terminated, breached or amended in a manner that would reasonably be expected to be materially adverse to the interests of the Pearl Lenders;

- any person (other than a Pearl Lender) breaches or repudiates any of the Contingent Fee Agreement, the implementation agreement dated 27 June 2009 between the Guarantor, the Lenders, the Pearl Borrowers, the Impala Borrowers, certain Sellers and PGH2 (as amended, the "**Implementation Agreement**") or certain other agreements (unless remedied within any originally applicable grace periods under the relevant documents);
- any party (other than a Pearl Lender or Impala Lender or a hedging bank) to the Lender Relationship Agreement breaches certain specified provisions of the Lender Relationship Agreement (unless remedied within the specified grace period) (for details of the Lender Relationship Agreement, see "*Additional Information—Material Contracts—Lender Relationship Agreement*");
- the auditors of the Pearl Covenant Group qualify their report on any audited consolidated financial statement of the Pearl Covenant Group or any audited financial statement of any Pearl Borrower in a manner and to an extent considered by the majority Pearl Lenders to be materially adverse to their interests under the finance documents;
- any litigation, arbitration, proceeding or dispute is started or threatened or there are any circumstances likely to give rise to any such proceeding, in each case which is reasonably likely to be adversely determined and would reasonably be expected to have a material adverse effect; and
- any event or circumstance occurs which has or would have a material adverse effect on or result in a material adverse change in the financial condition, assets or business of the Pearl Covenant Group taken as a whole, the ability of either Pearl Borrower to comply with its payment obligations or the financial covenants under the Pearl Facility Agreement, the validity, legality or enforceability of the Pearl Facility Agreement or certain related financing documents or the validity, legality or enforceability of any security expressed to be created under the related security documents or the priority of any such security.

If an event of default occurs the Pearl Lenders may cancel their commitments and/or declare the loans immediately due and payable and/or payable on demand. In addition the Pearl Lenders may enforce their security referred to below and such enforcement could constitute a change of control for the purpose of the Impala Facility Agreement, allowing the Impala Lenders to instruct the Impala Agent to cancel their commitments and declare all amounts owed to them under the Impala Facility Agreement, immediately due and payable. If the Pearl Lenders chose to appoint a receiver or administrator to sell the shares of PGH2 (but not PLHL) this could constitute a trigger event for the purposes of the 2012 Pensions Agreement which could enable the trustee of the Pearl Group Staff Pension Scheme to enforce their rights under the 2012 Pensions Agreement and related security documents.

(vii) Change of control

The Pearl Facility Agreement and Lender Loan Notes contain change of control clauses. Upon a change of control of the Guarantor or certain other changes to the structure of the Group, each Pearl Lender shall be entitled to declare the principal amounts outstanding and the accrued interest on its participation under each of these agreements immediately repayable or require that the Lender Loan Notes it holds are immediately redeemed.

(viii) Guarantees and security

Each of the Pearl Borrowers have guaranteed the indebtedness and obligations of the other Pearl Borrower under the Pearl Facility Agreement and certain related financing documents, and have charged all of their assets, including without limitation their respective bank accounts and all book or other debts, together with the shares of PLHL and PGH2, in support of their respective obligations under the Pearl Facility Agreement. The obligations of the Pearl Borrowers under the Lender Loan Notes are also secured by a second-ranking charge executed by the Pearl Borrowers with respect to such assets.

(ix) Intercreditor Agreement

The Pearl Borrowers have entered into an amended and restated Intercreditor Agreement (the "**Pearl Intercreditor Agreement**") with the Guarantor and PGH2, the Pearl Lenders, the Pearl Facility Agent, the security trustee and the counterparties to certain hedging agreements previously entered into with certain members of the Pearl Covenant Group. The Pearl Intercreditor Agreement provides that the obligations of the Pearl Borrowers under the Pearl Senior Debt and such hedging agreements are senior in right of payment to the Lender Loan Notes (including those held by the Guarantor and its affiliates), the

Guarantor Subordinated Debt and certain other intercompany debt of the Guarantor and its subsidiaries (the "**Guarantor Intercompany Debt**"). The Lender Loan Notes are subordinated to the Pearl Senior Debt, but the Lender Loan Notes held by parties other than the Guarantor and its affiliates are senior to the Lender Loan Notes held by the Guarantor or its affiliates, the Guarantor Subordinated Debt and all other Guarantor Intercompany Debt. The Lender Loan Notes held by the Guarantor and its affiliates are subordinated to the Lender Loan Notes held by parties other than the Guarantor and its affiliates and the Pearl Senior Debt, but senior to the Guarantor Subordinated Debt and all other Guarantor Intercompany Debt. The Guarantor Subordinated Debt and the Guarantor Intercompany Debt rank pari passu between themselves and are subordinated to the Lender Loan Notes and the Pearl Senior Debt.

Neither the holders of the Lender Loan Notes, the Guarantor Subordinated Debt nor the holders of any Guarantor Intercompany Debt may take any enforcement action or certain other specified actions with respect to such indebtedness so long as the Pearl Senior Debt is outstanding without the consent of the holders of two-thirds of the outstanding principal amount of the Pearl Senior Debt. Following the retirement of the Pearl Senior Debt and so long as any Lender Loan Notes held by parties other than the Guarantor or its affiliates remain outstanding, neither the Lender Loan Notes held by the Guarantor and its affiliates, the Guarantor Subordinated Debt nor the holders of Guarantor Intercompany Debt may take any enforcement action or certain other specified actions with respect to such indebtedness without the consent of the holders (other than the Guarantor and its affiliates) of two-thirds of the outstanding principal amount of the Lender Loan Notes. Following the retirement of the Pearl Senior Debt and the redemption of the Lender Loan Notes held by parties other than the Guarantor and its affiliates, and so long as any Lender Loan Notes held by the Guarantor and its affiliates remain outstanding, neither the Guarantor Subordinated Debt nor the holders of Guarantor Intercompany Debt may take any enforcement action, or certain other specified actions, with respect to such indebtedness without the consent of the Guarantor (and/or its relevant affiliates).

3. Impala Facility

The Impala Borrowers are borrowers under a facility agreement dated 10 October 2007 (as amended and restated from time to time, including 30 January 2013), entered into among the Impala Borrowers, the Impala Lenders, the bookrunners, the arrangers, the Impala Facility Agent and the security trustee described therein (the "**Impala Facility Agreement**").

As at 31 December 2013, £1,182 million was outstanding under the Impala Facility Agreement.

On 30 January 2013, the Impala Borrowers entered into an amendment and restatement agreement with the Impala Lenders, the Impala Facility Agent and the other parties to the Impala Facility Agreement (the "**Impala Facility Amendment and Restatement Agreement**") pursuant to which the Impala Facility Agreement was amended and restated.

The Impala Borrowers together own 25 per cent. of Impala and PGH2 owns 75 per cent. of Impala. PGH2 has granted a fixed charge over its shares in, and distributions from, Impala for the benefit of the Impala Borrowers.

(i) The Impala Facility Agreement

As at 31 December 2013, the outstanding principal amount under the Impala Facility Agreement was £1,182 million (the "**Impala Senior Debt**"), under a single tranche with a final maturity date of 31 December 2017 (the "**Original Termination Date**"). The Impala Borrowers are permitted to extend the final maturity date to 30 June 2019 on written notice to the Impala Facility Agent (such notice to be served in the period from 1 August 2017 to 1 October 2017), subject to no event of default being outstanding under the Impala Facility at the time such notice is served and no event of default under the Impala Facility Agreement or Target Repayment Event (as defined below) being outstanding on 31 December 2017.

The Impala Facility Agreement is repayable in semi-annual instalments of £30 million on 30 June and 31 December each year from 30 June 2013 (until the balance of such facility is repaid in full on or before the final maturity date (as described below) (the "**Scheduled Impala Repayment Amounts**"). The Impala Borrowers are also required to target repayments in addition to the Scheduled Impala Repayment Amounts described above in an aggregate amount of at least £60 million (the "**Target Repayment Amount**") for each successive 12 month period starting with the year ending 31 December 2013 (each, a "**Relevant Period**").

If the Impala Borrowers fail to repay the Target Repayment Amount in respect of any Relevant Period (a "**Target Repayment Event**"), this will not constitute a default under the Impala Facility Agreement, but will result in (i) a 0.50 per cent. per annum increase in the interest rate while the Target Repayment Event is continuing and (ii) a temporary block on the payment of dividends or other distributions by the Impala Borrowers ("**Impala Dividends**").

Once any arrears of the Target Repayment Amount (such arrears being "**Target Repayment Arrears**") have been paid in full, the Impala Borrowers are permitted to catch up with the payment of Impala Dividends matching those arrears provided that payment is made on a 1:1:1 basis in respect of (i) matching dividend prepayments required to be made for that current Relevant Period, (ii) Impala Dividends for that Relevant Period and (iii) arrears on Impala Dividends which would have been payable in any previous Relevant Period (but which were not paid due to the relevant Target Repayment Event), subject to a cap of £65 million.

The Impala Borrowers are permitted, from time to time, to voluntarily prepay the Impala Senior Debt in whole or in part, with a minimum prepayment of £2 million. The Impala Borrowers may not reborrow any amount under any of the facilities that has already been repaid. The Impala Senior Debt is subject to mandatory prepayments from specified proceeds (including insurance proceeds, debt issuance proceeds and disposal proceeds from within the Impala Covenant Group (as defined below)).

Both voluntary and mandatory prepayments are required to be applied in prepayment of the Loan on the last day of the interest period. Any amounts of insurance proceeds and debt issuance proceeds which are prepaid are required to be applied first against the Scheduled Impala Repayment Amount payable on the Original Termination Date (or such final maturity date as extended from time to time) and will not be available for distribution. Any amount of disposal proceeds paid into a designated prepayment account and any amount of voluntary prepayments may be applied against all, or any of, the Scheduled Impala Repayment Amounts as the Impala Borrowers may elect. However, if such prepayments of disposal proceeds or voluntary prepayments are applied to the Scheduled Impala Repayment Amount in inverse order of maturity, such prepayments may be offset against matching dividend prepayments or applied towards the aggregate amount required to qualify for the 0.25 per cent. margin step down. Furthermore if the Impala Borrowers do not elect to apply disposal proceeds or voluntary prepayments against Schedule Repayment Instalments, such amounts shall be deemed to be included in calculating whether or not the Target Repayment Amount for the Relevant Period has been achieved.

Furthermore, the Impala Facility Agreement permits the Impala Borrowers to apply, at their discretion, disposal proceeds which the Impala Borrowers are obliged to apply in prepayment of the Impala Facility and voluntary prepayments against target repayments or mandatory amortisations.

The Impala Borrowers are also permitted to request (in a selection notice) that a loan be divided in two to facilitate, inter alia, the making of matching dividend prepayments without incurring break costs. The Impala Borrowers are entitled to select interest periods of one, three or six months (or any other period agreed by the Impala Facility Agent) in relation to the loan created by the division (however the aggregate amount of loans with an interest period of one month is not permitted to exceed £100 million).

The Impala Facility Agreement, bears interest at LIBOR plus a margin of 4.75 per cent. per annum plus mandatory costs. The margin shall be reduced by 0.25 per cent. per annum with effect from 1 January 2015 if by that date the Impala Borrowers have repaid the facility in an aggregate amount equal to or greater than the aggregate amount of the following: (i) the Target Repayment Amount for the year ending 31 December 2013; (ii) the Target Repayment Amount for the year ending 31 December 2014; and (iii) voluntary prepayments in an aggregate amount not less than £200 million (which the Impala Borrowers have elected to count towards such amount). The margin will increase by (x) 2.25 per cent. per annum on and from the Original Termination Date if the option to extend the final maturity date to 30 June 2019 is exercised; and (y) 0.50 per cent. per annum if a Target Repayment Event (as defined below) occurs and is continuing.

There is a structural adjustment provision, which permits: (i) the introduction of a new tranche; (ii) the transfer of an existing tranche into a new tranche; (iii) an extension of the payment date of any amount; or (iv) a reduction in the margin or of any other payment of principal, interest, fees or commission, in each case with the consent of the super majority lenders (90 per cent. of Impala Lenders) and each affected Impala Lender.

(ii) Restricted distributions and payments

Subject to the exceptions described below, the Impala Facility Agreement provides that none of the Impala Borrowers, Impala nor their respective subsidiaries (collectively, the "**Impala Covenant Group**"), may:

- pay, repay or prepay any principal amount, interest or other amount in respect of: (x) outstanding debts between the Guarantor and the Impala Borrowers; (y) indebtedness owing to the Guarantor, certain other shareholders and other related parties (collectively, the "**Impala Restricted Persons**"); or (z) any of the Tier 1 Bonds, save for (subject to the conditions described below) an annual coupon payment of up to 6.5864 per cent. per annum on the Tier 1 Bonds not held by any Impala Restricted Person or any member of the Impala Covenant Group (unless held on behalf of third parties) becoming payable (each a "**Permitted Coupon**"); or
- make any investment in, pay any fee, or make an advance or other payments to, any Impala Restricted Person.

Further, subject to the exceptions described below, each of the Impala Borrowers may not:

- declare or pay any dividend or other distribution of any kind on or in respect of any of its shares; or
- reduce, return, purchase, repay, cancel or redeem any of its shares.

Subject to the conditions described below, such restrictions on distributions and payments do not apply to, amongst other things, the following payments:

- an amount of up to £2.5 million per annum for payment of head office and administrative costs of the Guarantor;
- payment of an Impala Dividend, provided that:
    - (i) no default and no Target Repayment Event is outstanding on the date the relevant Impala Dividend is declared or would be outstanding immediately after payment of the relevant Impala Dividend on the date such dividend is intended to be paid;
    - (ii) payment of the Impala Dividend in that Relevant Period will not breach the Impala Dividend Restriction nor the Group Dividend Restriction (each as described below); and
    - (iii) the Borrowers have made a matching dividend prepayment (if necessary) on or before the date which is 5 Business Days prior to the date the Impala Dividend is intended to be paid.
- Payments of a Permitted Coupon, provided that no default and no Target Repayment Event is outstanding on the date of the relevant payment;
- The refinancing of the Tier 1 Bonds from the proceeds of financial indebtedness incurred by the Impala Group and financial indebtedness incurred by the Group (other than the Impala Group of the Pearl Covenant Group);
- the Impala Borrowers are required to make matching dividend prepayments prior to paying any Impala Dividends (the "**Impala Dividend Restriction**"), with the amount required to be prepaid determined as follows:
    - (i) (the "**Impala Dividend Restriction**"): prior to the In/Out Adjustment Date (as described below), the ratio of prepayments to Impala Dividends is determined as follows by reference to the aggregate amount of Impala Dividends in a Relevant Period:
        - (a) up to £70 million in 2014 (increasing by £5 million per annum): £0.923 of prepayment for each £1 of dividends up to £65 million of dividends and £1.00 of prepayment for each £1 of dividends paid under this exception in excess of £65 million;
        - (b) the next £10 million: £10 of prepayment for each £5 of dividends;
        - (c) the next £10 million: £10 of prepayment for each £3 of dividends; and
        - (d) thereafter: £10 of prepayment for each £1 of dividends, or
        - (e) provided that, with effect from the In/Out Adjustment Date (as described below), the amount of Impala Dividends paid in any subsequent Relevant Period will not be permitted to exceed £38 million and thereafter the ratio of prepayments to Impala Dividends would be determined by reference to a ratio of £1.5789 of prepayment for each £1 of dividends;

(ii) the "**In-Out Adjustment Date**" will occur on the date on which the Incremental Impala Dividend Amount exceeds £250 million, where:

(a) "**Incremental Impala Dividend Amount**" means the aggregate of the Surplus Amount for each Relevant Period up to and including the current Relevant Period; and

(b) "**Surplus Amount**" means, in respect of any Relevant Period, the amount (if any) by which the aggregate amount of Impala Dividends paid in that Relevant Period exceeds £27.5 million.

As at the date of this Prospectus, the In-Out Adjustment Date has not occurred;

(iii) the "**Group Dividend Restriction**": the ratio of prepayments to dividends is determined as follows by reference to the aggregate amount in a Relevant Period of (i) Impala Dividends (provided that the aggregate amount of Impala Dividends taken into account for such purposes is capped at £70 million in 2014, with such capped amount increasing thereafter by £5 million per annum) and (ii) dividends and other distributions paid by any member of the Pearl Covenant Group and (after the Pearl Facility and Lender Loan Notes have been repaid in full) Opal Re (the "**Pearl and Opal Dividends**"):

(a) up to £130 million in 2014 (increasing by £10 million per annum thereafter): no matching dividend prepayment required

(b) the next £20 million: £10 of prepayment for each £5 of dividends

(c) the next £20 million: £10 of prepayment for each £3 of dividends

(d) thereafter: £10 of prepayment for each £1 of dividends,

provided that the Group dividend restriction will cease to apply for so long as (i) the Guarantor holds a long term unsecured senior debt rating of not less than BBB—/Baa3 or equivalent from one or both of Standard & Poor's or Moody's; and (ii) financial leverage of the Impala Group (calculated using Standard & Poor's methodology) is less than or equal to the then applicable target level for an investment grade rating (or if the Guarantor's rating is from Moody's, calculated using Moody's methodology);

- prior to payment of Impala Dividends or Pearl and Opal Dividends, the Impala Borrowers are required to certify to the Impala Lenders, among other things, the amount and date of such payments and the aggregate amount of matching dividend prepayments and the Incremental Impala Dividend Amount;
- the Impala Facility Agreement includes provisions to make clear that:

(i) the aggregate amount of Impala Dividends taken into account for the purposes of the Group Dividend Restriction is capped at £70 million in 2014, with such capped amount increasing thereafter by £5 million per annum; and

(ii) the Target Repayment Amount and the thresholds applicable to the Impala dividend restriction and Group dividend restriction will be adjusted pro rata to the extent that any Relevant Period is less than 12 months;

The payments permitted to be made to the Guarantor may be made in any manner, directly or indirectly, including but not limited to, repayment under, or entry into, any debt arrangements with the Guarantor and the Impala Covenant Group or by way of dividend. However, no dividend or other distribution may be paid by Impala at any time.

(iii) Representations, warranties and covenants

The Impala Facility Agreement contains representations and warranties, covenants, prepayment provisions and events of default customary for loan agreements for similar financings.

Affirmative covenants, subject to customary terms and conditions and other negotiated exceptions, require the Impala Borrowers to, among other things:

- provide to the Impala Facility Agent annual and semi-annual financial statements;
- provide compliance certificates relating to (among other things) compliance with financial covenants and confirming that no default is continuing;
- provide copies of each annual operating plan and copies of each semi-annual update thereto;

- maintain all Impala group pension schemes substantially in accordance with the governing provisions of such schemes where failure to do so would reasonably be expected to have a material adverse effect;
- ensure that the financial covenants are met, including that, at each semi-annual calculation date the ratio of (a) the aggregate principal amount of the Impala Senior Debt and the net mark-to-market value of the hedging relating to the Impala Senior Debt to (b) the sum of the embedded value of the Impala Covenant Group adjusted by any liabilities and/or any surplus in respect of the PGL Pension Scheme minus the pension deficit in respect of the PGL Pension Scheme, is less than:
  - (b) from 1 January 2014 to 31 December 2015, 60 per cent.; and
  - (c) from 1 January 2016 until the Final Maturity Date, 58 per cent. on all subsequent semi-annual calculation dates thereafter;
- ensure that the capital resources of each insurance subsidiary are greater than the higher of its capital resources requirement and its ICA requirement; and
- ensure that the EEA GCR is greater than 105 per cent. of the EEA GCRR.

Breach of these affirmative covenants will trigger an event of default.

Restrictive covenants, subject to customary terms and conditions and other negotiated exceptions, include limitations, including between the silos, on:

- amalgamation, demerger, merger, consolidation or corporate reconstruction (other than a permitted merger) as set out in the Impala Facility Agreement;
- changes in business (including underwriting any new business that is not a long-term insurance business);
- acquisitions and investments, other than permitted acquisitions which include any acquisition of any company, business or undertaking (directly or indirectly) by the Guarantor which the Majority Lenders under the Impala Facility Agreement have consented to, except that no consent shall be required if:
  - (i) the acquisition is made by the Pearl Covenant Group or the Impala Group in compliance with the relevant facility agreement, or
  - (ii) the target is established in and has its principal business in the UK or Ireland (other than asset management investments and holding company arrangements), and (ii) not less than 3 business days before completion of the acquisition, the directors of the Impala Borrowers demonstrate that such acquisition will not increase the leverage of the Group calculated as the gross shareholder debt of the Group divided by the gross MCEV of the Group, where: (A) gross shareholder debt means the sum of the IFRS carrying value of all shareholder debt of the Group and 50 per cent. of the IFRS carrying value of the Tier 1 Bonds; and (B) gross MCEV means the sum of: (I) the market consistent embedded value of the Group as calculated in accordance with the Group's published methodology; and (II) the value of the shareholder debt and hybrid debt as included in the market consistent embedded value, provided that (x) the requirement set out in (ii) above shall not apply if the directors of the Impala Borrowers demonstrate, not less than 3 business days prior to the date on which binding documentation in relation to the relevant acquisition is signed, that the leverage of the Group immediately after the acquisition (calculated using Standard & Poor's methodology) is expected to be less than or equal to the then applicable target financial leverage ratio for an investment grade rating as published by S&P for closed life assurance businesses; and (y) if the Guarantor (directly or indirectly) makes an acquisition without obtaining Majority Lender consent, when required in accordance with the above, an event of default shall be triggered under the Impala Facility Agreement.

  Subject to existing contractual arrangements, and all necessary regulatory consents and approvals, PGMS shall be used as primary asset manager and primary service provider for any company acquired by a member of the Impala Group for as long as that entity and PGMS remains a member of the Impala Group;
- entering into or investing in any joint venture;
- granting security over any assets;

- asset disposals (other than permitted disposals, which include reinsurance arrangements, Part VII transfers of all or part of Phoenix Life Limited's and Scottish Mutual International Limited's annuity portfolios subject to a cap of £1 billion per annum and disposals of any subsidiary with consent from more than 51 per cent. of the Impala Lenders);
- incurring financial indebtedness (other than permitted financial indebtedness, which include customary and more bespoke types of financial indebtedness);
- amending certain inter-company loan agreements or entering into outsourcing arrangements;
- entering into certain hedging arrangements;
- entering into or amending certain reinsurance arrangements; and
- transactions with affiliates.

(iv) Events of default

The events of default under the Impala Facility Agreement are customary, and include the following:

- an Impala Borrower fails to pay any amount payable pursuant to the Impala Facility Agreement, or related finance documents, when due (and such default, if caused by an administrative error only, is not cured within three business days);
- a breach of certain specified financial covenants subject to a 45 day grace period in certain cases or an equity cure right in others;
- an Impala Borrower or PGH2 does not comply with any other provision of the Impala Facility Agreement or related finance documents (and such default is not cured within 15 Business Days);
- any representation or statement made or deemed to be made by an Impala Borrower or PGH2 in the Impala Facility Agreement, related finance document or security documents is incorrect or misleading (and such misrepresentation is not cured within 15 business days);
- certain default, acceleration and/or cancellation events with regards to other financial indebtedness of members of the Impala Group, or lender commitments with respect thereto (provided that the aggregate amount of relevant indebtedness or commitment is £5 million or more);
- certain bankruptcy or insolvency events occur with respect to an Impala Borrower or a material subsidiary;
- any expropriation, attachment or analogous process affects any material asset of an Impala Borrower or a material subsidiary in relation to indebtedness of at least £5 million and is not discharged within 15 business days;
- any security document, guarantee in, or any subordination under, the Impala Facility Agreement or related finance documents is not in full force and effect or any security document does not create for the benefit of the Impala Lenders the security which it is expressed to create;
- any party (other than an Impala Lender or a hedging bank) fails to comply with its obligations under the Impala Intercreditor Agreement (as defined below) and, in the opinion of the majority of the Impala Lenders, the interests of the Impala Lenders under the Impala Facility Agreement or any related finance document are materially prejudiced by such failure;
- any Impala Borrower or PGH2 repudiates or evidences an intention to repudiate any of the Impala Facility Agreement or related financing documents;
- any of the constitutional documents of an Impala Borrower, or certain agreements relating to the Restructuring, are terminated or breached or amended in a manner that would reasonably be expected to materially adversely affect the interests of the Impala Lenders;
- any person (other than an Impala Lender) breaches or repudiates any of the Contingent Fee Agreement or the Implementation Agreement (unless remedied within any originally applicable grace periods under such documents);
- any material subsidiary ceases to be a wholly owned subsidiary of Impala unless arising as a result of a permitted disposal;

- any party (other than a Pearl Lender, Impala Lender or a hedging bank) to the Lender Relationship Agreement breaches certain specified provisions of clauses of the Lender Relationship Agreement (unless remedied within the specified grace period) (for details of the Lender Relationship Agreement, see "*Additional Information—Material Contracts—Lender Relationship Agreement*");
- the auditors of the Impala Covenant Group qualify their report on any audited consolidated financial statement of the Impala Covenant Group or any audited financial statement of any Impala Borrower in a manner and to an extent considered by the majority Impala Lenders to be materially adverse to their interests under the finance documents;
- any litigation, arbitration, proceedings or dispute are started or threatened or there are any circumstances likely to give rise to any such proceedings, in each case which are reasonably likely to be adversely determined and would reasonably be expected to have a material adverse effect;
- any event or circumstance occurs which has or would have a material adverse effect on or result in a materially adverse change to: the financial condition, assets or business of the Impala Covenant Group taken as a whole, the ability of either Impala Borrower to comply with its payment obligations or financial covenants under the Impala Facility Agreement, the validity, legality or enforceability of the Impala Facility Agreement or certain related financing documents or the validity, legality or enforceability of any security expressed to be created under the related security documents or the priority of any such security;
- the Impala Borrowers fail to obtain consent to any acquisition or investment in shares made by the Guarantor of/in a person which is not a member of the Group; and
- any member of the Pearl Group does not comply with the terms of the Pearl/Opal Re Side Letter (described below) (unless remedied within the specified grace period).

If an event of default occurs the Impala Lenders may cancel their commitments and/or declare the loans immediately due and payable and/or declare the loans payable on demand. In addition the Impala Lenders may enforce the security referred to below. The enforcement of the limited recourse share pledge executed by PGH2 over all of the shares it owns in Impala could constitute an event of default under the Pearl Facility Agreement (on the basis that the shares of Impala held by PGH2 are assets of PGH2 and such action would constitute insolvency proceedings or a creditors process in respect of such assets for the purpose of the Pearl Facility Agreement) and consequently the Pearl Borrowers could take enforcement action in accordance with the Pearl Facility Agreement and certain related financing documents.

(v) Change of Control

Upon a change of control of the Guarantor, or certain other changes to the structure of the Group, the principal amounts outstanding and the accrued interest under each of these agreements would become repayable at the election of the Impala Lenders.

(vi) Guarantees and security

Each of the Impala Borrowers have guaranteed the indebtedness and obligations of the other Impala Borrowers under the Impala Facility Agreement and certain related finance documents, and have charged all of their assets including, without limitation, their respective bank accounts and all book or other debts in support of their respective obligations under the Impala Facility Agreement. The obligations of the Impala Borrowers under the Impala Facility Agreement are also secured by a limited recourse share pledge executed by PGH2 over all of the shares it owns in Impala (and any related distributions).

The obligations of the Impala Borrowers under the Impala Facility Agreement are also secured by a charge granted by the Guarantor over the notes issued by PGH1 to the Guarantor pursuant to a Deed of Covenant dated 22 April 2010 and any payments and rights received, or to be received, by the Guarantor in connection with such notes.

(vii) The Impala Intercreditor Agreement

The Impala Borrowers have entered into an amended and restated Intercreditor Agreement (the "**Impala Intercreditor Agreement**") with certain parent entities and other affiliates of the Impala Borrowers, the Impala Lenders, the administrative agent, the security trustee and the counterparties to hedging agreements entered into with certain members of the Impala Covenant Group. The Impala Intercreditor Agreement provides that the obligations of the Impala Borrowers under the Impala Facility Agreement and certain associated hedging agreements are senior in right of payment to certain intercompany debt of the Guarantor and its affiliates (the "**Impala Intercompany Debt**"). The holders of the Impala Intercompany Debt may not take any enforcement action, or certain other specified actions, with respect to such Impala Intercompany Debt so long as the senior debt of the Impala Borrowers is outstanding, without the consent of the holders of two thirds of the outstanding principal amount of the senior debt.

(viii) Pearl/Opal Re Side Letter

- The Pearl Borrowers (and, as described below in respect of (i) and (ii) below, Opal Re) have given an undertaking to the Impala Facility Agent that, with effect from the date on which the Pearl Facility and the Lender Loan Notes have been repaid in full, if a Target Repayment Event is outstanding and/or the Scheduled Impala Repayment Amounts have not been paid as scheduled (and the Impala Facility Agent has notified the Pearl Borrowers and Opal Re of the same):
  - (i) the Pearl Borrowers (and Opal Re) shall not make any dividends to the Guarantor unless (i) the relevant amount of Target Repayment Arrears have been paid and the Scheduled Impala Repayment Amounts have been paid or (ii) the Guarantor agrees to make (and does make) a payment (which may be structured as a capital contribution or a shareholder loan, provided that it is subordinated on terms acceptable to the Majority Lenders) to the Impala Borrowers in an aggregate amount equal to the lesser of: (x) the aggregate amount of such dividend from the Pearl Borrowers or Opal Re and (y) the aggregate amount of the Target Repayment Arrears and/or the outstanding Scheduled Impala Repayment Amounts, with an instruction for the Impala Borrowers to apply such amounts in repayment of the Impala Facility;
  - (ii) the Pearl Borrowers (and Opal Re) shall not (unless with the consent of the Majority Lenders under the Impala Facility Agreement) transfer (or permit their subsidiaries to transfer) any material assets to the Guarantor (or other subsidiaries of the Guarantor which are not part of the Pearl Group or the Impala Group), except on arm's length terms, at full market value and for cash consideration paid in full at completion; and
  - (iii) after the Pearl Facility and the Lender Loan Notes have been repaid in full, the restrictions on acquisitions contained in the Pearl Facilities Agreement shall continue to apply to the Pearl Borrowers and their subsidiaries (other than Impala and its subsidiaries) unless the consent of the Majority Lenders under the Impala Facility is obtained.
- Pursuant to the Impala Facility Agreement, a breach by Opal Re, the Pearl Borrowers or any of their subsidiaries of the dividend, transfer and acquisition restrictions set out above will be an event of default.

4. Repayment Schedule for the Group's Credit Facilities

The table below sets out the contractually scheduled and target repayments in respect of the Pearl Facility and the Impala Facility.

The contractually scheduled and target repayments in respect of the Impala Facility set out in the table below are described on the assumption that the Impala Borrowers have exercised the option to extend the final maturity date of the Impala Facility to 30 June 2019, which the Impala Borrowers can do on written notice to the Impala Facility Agent (such notice to be served within the period from 1 August 2017 to 1 October 2017), subject to no event of default being outstanding under the Impala Facility at the time such notice is served and no event of default under the Impala Facility or Target Repayment Event being outstanding on 31 December 2017.

	Balance at 31 December 2013	Contractually scheduled and target repayments: During the year ended 31 December 2014	2015	2016	2017	2018	2019	Total
		£ millions						
Contractually scheduled and target repayments:								
Pearl Facility contractually scheduled repayments:								
Pearl Bank Facility	350	25	25	300	—	—	—	**350**
Subordinated Lender Loan Notes	81	—	—	—	—	—	—	**81**(1)
Total Pearl Facility	**431**	**25**	**25**	**300**	**—**	**—**	**—**	**431**
Impala Facility:								
Contractually scheduled repayments	240	0(3)	60	60	60	60	—	240
Additional target repayments	265	25(3)	60	60	60	60	—	265
Aggregate contractually scheduled and target repayments	505	25	120	120	120	120	—	505
Final repayment	677	—	—	—	—	—	677(3)	677
Total Impala Facility	**1,182**	**25**	**120**	**120**	**120**	**120**	**677**	**1,182**
Total contractually scheduled and target repayments	**1,613**	**50**	**145**	**420**	**120**	**120**	**677**	**1,613**(2)

Notes:

(1) This loan note is repayable in 2024.

(2) Includes Lender Loan Notes (£81 million) maturing in 2024.

(3) In the second half of 2013, a voluntary repayment of £100 million was made. £95 million of the £100 million prepayment was set against the 2014 mandatory and target amortisation. The remainder was set against the 2019 bullet.

5. Royal London Agreements

In connection with the acquisition of the Resolution Group,

- A PIK Facility Agreement (dated 10 October 2007, as amended and restated on 27 June 2009) was entered into by MC2 as borrower, MC1 as guarantor and Royal London as lender in the principal amount of £154.5 million; and
- MC1 entered into a notes subscription agreement (dated 14 May 2008, as amended and restated on 27 June 2009) with MC2 as guarantor and Royal London as the initial noteholder, pursuant to which MC1 (as issuer) and MC2 (as guarantor) executed the PIK Notes Instrument pursuant to which PIK Notes of £154.5 million were issued to Royal London,

together, the "**PIK Documents**".

The PIK Documents provide for a bullet repayment on 28 June 2019 and the payment of a coupon of 2 per cent. per annum plus LIBOR (with an increased coupon of 3.5 per cent. per annum on capitalised interest if elected by MC1 or MC2).

The PIK Documents contain undertakings and covenants customary for instruments of this nature. Aside from certain specific provisions, a consent or waiver obtained under the Impala Facility Agreement will be deemed to be a consent or waiver for the purposes of the PIK Documents.

There are however a limited number of events such as a change of control of the company or breach of certain provisions of the PIK Documents, which, if they occurred, would entitle Royal London to require immediate repayment of the principal amounts outstanding and the accrued interest under the PIK Documents would become immediately repayable or be required to be immediately redeemed (as the case may be).

6. Opal Re Funding and Dividend Contribution Agreement

The Guarantor, Opal Re and The Royal Bank of Scotland plc ("**RBS**"), as agent for the Pearl Lenders, have entered into the Opal Re Contribution Agreement, dated 27 June 2009, which is governed by English law.

Until such time as all amounts outstanding under the Pearl Facility Agreement have been repaid, Opal Re has agreed to declare, in favour of the Guarantor, subject to payment of such monies in accordance with the Opal Re Contribution Agreement, such dividends as the directors of Opal Re believe are commercially reasonable.

Until such time as RBS, acting as agent, gives notice to Opal Re that all amounts owed by the Pearl Borrowers under the Pearl Facility Agreement have been repaid, the Guarantor has directed that Opal Re pay to the Pearl Borrowers any amount which would otherwise have been paid by Opal Re to the Guarantor. Moreover, the Guarantor has agreed that it will not revoke or amend such a direction without the consent of RBS. If the Guarantor receives any amount from Opal Re at a time when there remain amounts owed by the Pearl Borrowers under the Pearl Facility Agreement, the Guarantor will pay such amount to the Pearl Borrowers immediately by way of capital contribution.

Opal Re (and the Pearl Borrowers), in a letter dated 30 January 2013 to the Impala Agent, gave an undertaking to the Impala Facility Agent that, with effect from the date on which the Pearl Facility and the Lender Loan Notes have been repaid in full, if a Target Repayment Event is outstanding and/or the Scheduled Impala Repayment Amounts have not been paid as scheduled (and the Impala Facility Agent has notified the Pearl Borrowers and Opal Re of the same):

- it shall not pay any dividends to the Guarantor unless (i) the relevant amount of Target Repayment Arrears and the Scheduled Impala Repayment Amounts have been paid; or (ii) the Guarantor agrees to make (and does make) a payment (which may be structured as a capital contribution or a shareholder loan, provided that it is subordinated on terms acceptable to the Majority Lenders) to the Impala Borrowers in an aggregate amount equal to the lesser of: (x) the aggregate amount of such dividend from the Pearl Borrowers or Opal Re; and (y) the aggregate amount of the Target Repayment Arrears and/or the outstanding Scheduled Impala Repayment Amounts, with an instruction for the Impala Borrowers to apply such amounts in repayment of the Impala Facility; and
- it shall not (unless with the consent of the Majority Lenders under the Impala Facility Agreement) transfer (or permit their subsidiaries to transfer) any material assets to the Guarantor (or other subsidiaries of the Guarantor which are not part of the Pearl Group or the Impala Group), except on arm's length terms, at full market value and for cash consideration paid in full at completion.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Conditions which, subject to amendment and completion and except for the text in italics, will be endorsed on each Bond Certificate (if issued):

The issue of the £300,000,000 5.75 per cent. Guaranteed Bonds due 2021 (the "**Bonds**") was authorised by a resolution of the Board of Directors of PGH Capital Limited (or any substitute therefor from time to time pursuant to the terms of Condition 15 (*Substitution*)) (the "**Issuer**") passed on 17 June 2014. The giving of a guarantee was approved by a resolution of the Board of Directors of Phoenix Group Holdings (or any substitute therefor from time to time pursuant to the terms of Condition 15 (*Substitution*)) (the "**Guarantor**") on 27 May 2014. A paying agency agreement dated 7 July 2014, as amended or supplemented from time to time (the "**Paying Agency Agreement**"), has been entered into in relation to the Bonds between the Issuer, the Guarantor, Citibank, N.A., London Branch as principal paying agent and the other agents named in it. The Bonds have the benefit of a Trust Deed dated 7 July 2014 (the "**Trust Deed**") executed by the Issuer, the Guarantor and Citibank, N.A., London Branch (the "**Trustee**") relating to the Bonds. The principal paying agent, the registrar and any transfer agent for the time being are referred to below respectively as the "**Principal Paying Agent**", the "**Registrar**" and the "**Transfer Agents**". The phrase **Paying Agents** means the Principal Paying Agent and the paying agents named in the Paying Agency Agreement, which expression includes any other paying agent or paying agents appointed from time to time with respect to the Bonds. **Agents** means the Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Bonds. Certain provisions of these Conditions are summaries of the Trust Deed and are subject to its detailed provisions. The Trust Deed includes the form of the Bonds. Copies of the Paying Agency Agreement and the Trust Deed are available for inspection during normal business hours at the specified offices (as defined in the Trust Deed) of each of the Paying Agents, the Registrar and any Transfer Agents. The holders of the Bonds (the "**Bondholders**") are bound by, and are deemed to have notice of, all the provisions of the Trust Deed applicable to them.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Trust Deed, the absence of any such meaning indicating that such term is not applicable to the Bonds. References to "Conditions" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. Form, Specified Denomination and Title

The Bonds are issued in registered form, serially numbered and in the denomination of £100,000 and integral multiples of £1,000 in excess thereof (the "**Authorised Denomination**").

The Bonds are represented by registered certificates ("**Bond Certificates**") and, save as provided in Condition 3.1 (*Transfer*), each Bond Certificate shall represent the entire holding of Bonds by the same holder. Each Bond Certificate will be serially numbered with an identifying number which will be recorded on the relevant Bond Certificate and in the Register (as defined below).

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar at its Specified Office in accordance with the provisions of the Paying Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Bond Certificate representing it or the theft or loss of such Bond Certificate and no person shall be liable for so treating the holder.

In these Conditions, **Bondholder** and **holder** means the person in whose name a Bond is registered in the Register (or, in the case of joint holders, the first name thereof).

2. definitions and Interpretation

2.1 **Definitions**

In these Conditions the following terms have the meaning given to them in this Condition 2:

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

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

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

"**Business Day**" means a day, other than a Saturday or Sunday, on which banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in both London and, in respect of Condition 3.3 (*Delivery of New Bond Certificates*), the place of the Specified Office of the relevant Transfer Agent or the Registrar (as the case may be);

"**Calculation Date**" has the meaning given to it in Condition 6.2;

"**Existing Bank Debt**" means the £2,260 million syndicated loan facility, dated 14 May 2008, the £425 million loan facility, dated 15 November 2006, the £100 million PIK Notes and PIK Facility, dated 2 September 2009, and the £75 million secured loan note, dated 15 November 2006, each as amended and extended from time to time and as shown in the most recent published balance sheet of the Group;

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

"**Financial Leverage Ratio**" means, with respect to the Group and as at any date of determination, the ratio of (a) Gross Shareholder Debt to (b) Gross MCEV, and, in the case of (a) and (b), to the extent that the Group has incurred or repaid Indebtedness, completed a Merger or made a Disposal or Acquisition since either the most recent published financial statements of the Group or, if more recent, the most recent management accounts of the Group which have been distributed to the board of directors of the Guarantor, Gross Shareholder Debt and Gross MCEV shall be prepared on a pro forma basis to allow for such Indebtedness, Merger(s), Acquisition(s) and/or Disposal(s). A certificate, dated as at a Calculation Date, signed by two directors of the Guarantor as to the calculation of the Financial Leverage Ratio (as calculated the Business Day prior to the incurrence or issuance of Indebtedness or the entering into of an agreement in respect of a Merger, Acquisition and/or Disposal on a pro forma basis to allow for such Indebtedness, Merger(s), Acquisition(s) and/or Disposal(s) in accordance with this definition and Condition 6.2) shall, in the absence of manifest error, be conclusive and binding on all parties whether or not addressed to each such party;

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

"**general insurance fund**" means, in relation to an Insurance Subsidiary that carries on general insurance business (as defined in the PRA Handbook), the assets held in respect of liabilities of that Insurance Subsidiary's general insurance business;

"**Gross MCEV**" means the sum of (a) Group MCEV, plus (b) Total Shareholder Borrowings and IFRS Instruments using values attributed to such items when included in the Group's preparation of MCEV;

"**Gross Shareholder Debt**" means the IFRS carrying value of Total Shareholder Borrowings plus the IFRS carrying value of the IFRS Instruments of the Group;

"**Group**" means the Issuer, the Guarantor and its consolidated subsidiaries taken as a whole;

"**Group MCEV**" means Group MCEV as set-out in the Group's most recent published financial statements or most recent management accounts of the Group, as applicable;

"**Guarantee**" has the meaning given to it in Condition 5;

"**Guarantor**" means Phoenix Group Holdings, a company with limited liability incorporated in the Cayman Islands, whose registered number is 202172 and whose registered office is at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands or any additional Guarantor which guarantees the Bonds pursuant to Condition 6.3 (*Anti-Layering*) (or any substitute therefor from time to time pursuant to the terms of Condition 15 (*Substitution*));

"**IFRS**" means International Financial Reporting Standards as set-out in the Group's most recent published financial statements;

"**IFRS Instruments**" means any shareholder Indebtedness existing on the relevant Calculation Date which has equity treatment under IFRS, including, for the avoidance of doubt, the existing Perpetual Reset Capital Securities as set-out in the Group's most recent published financial statements or most recent management accounts of the Group, as applicable;

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

"**INSPRU**" means the Prudential Sourcebook for Insurers forming part of the handbook of rules and guidance published by the PRA of the United Kingdom;

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

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

(a) the primary purpose of which is to make investments on behalf of or to raise capital from members of the Group (together, excluding any Asset Management Subsidiary, the "**Investors**") and/or third party investors to invest in accordance with a defined investment policy (as may be amended from time to time); or

(b) in which funds from Investors are used to participate in joint ventures; or

(c) in which funds are invested by any entity described in (a) or (b) above; or

(d) the primary purpose of which is to act as a general partner, managing limited partner, management company (or other entity with similar purpose) in respect of any entity referred to in paragraphs (a) (b) or (c) above;

"**Issue Date**" means 7 July 2014;

"**Issuer**" means PGH Capital Limited, a company incorporated under the laws of Ireland with its registered office at Arthur Cox Building, Earlsfort Terrace, Dublin 2, Republic of Ireland (or any substitute therefor from time to time pursuant to the terms of Condition 15 (*Substitution*));

"**Material Subsidiary**" means:

(a) Phoenix Life Limited, Phoenix Life Assurance Limited, National Provident Life Limited, Pearl Group Management Services Limited and Pearl Group Services Limited; and

(b) at any time a direct or indirect Subsidiary of the Issuer or the Guarantor which has total income representing 5 per cent. or more of the consolidated total net income of the Group or total assets representing 5 per cent. or more of the consolidated total net assets of the Group, in each case calculated on a consolidated basis in accordance with the then most recent audited consolidated financial statements of the Guarantor,

unless in each case such Person has transferred all or substantially all of its assets to another Person pursuant to an insurance business transfer scheme made under Part VII of FSMA. If a Person becomes a member of the Group after the end of the financial period to which the most recent published consolidated financial statements of the Group relate, those financial statements shall be adjusted as if that Person had been shown in them by reference to its then latest audited financial statements and until published consolidated financial statements of the Group for the financial period in which the acquisition is made have been published. For the purpose of this definition, a certificate of two directors of the Guarantor (whether or not addressed to the Trustee) that in their opinion a Subsidiary of the Issuer or the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without liability to any person and without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties;

"**MCEV**" means Market Consistent Embedded Value as prepared in accordance with the methodology set out in Note 1 of the Notes to the MCEV supplementary information for the year ended 31 December 2013 in the Guarantor's annual report for 2013, as may be amended or replaced in the Group's most recent published financial statements from time to time;

"**Negative Rating Event**" shall be deemed to have occurred if, at the commencement of the Rating Change of Control Period no credit rating is assigned to the Bonds by any Rating Agency and within the Rating Change of Control Period, the Guarantor does not seek, either prior to, nor later than 30 days after the Rating Change of Control, and thereafter throughout the remainder of the Rating Change of Control Period use reasonable endeavours, to obtain from a Rating Agency an Investment Grade Rating in respect of the Bonds and it has not at the expiry of the Rating Change of Control Period obtained an Investment Grade Rating in respect of the Bonds, *provided that* the Rating Agency announces or confirms in writing that its declining to assign an Investment Grade Rating in respect of the Bonds was the result in whole or in part of the occurrence of (i) the Rating Change of Control or (ii) the relevant Rating Potential Change of Control Announcement, as the case may be;

"**non-profit fund**" means a long-term insurance fund (as defined in the PRA Handbook) which is not a with-profits fund;

"**Non-recourse Borrowings**" means:

any Indebtedness for moneys borrowed to finance the ownership, acquisition, development and/or operation of an asset (including in respect of value in force, embedded value or analogous financings) in respect of which the person or persons to whom any such indebtedness for moneys borrowed is or may be owed by the relevant borrower has or have no recourse whatsoever to the Issuer, the Guarantor or any Material Subsidiary of the Guarantor for the repayment thereof other than:

(a) recourse to such borrower for amounts limited to the cash flow or net cash flow from such asset; and/or

(b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure indebtedness for moneys borrowed, provided that (i) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on such enforcement, and (ii) such person or persons are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for moneys borrowed, to commence proceedings for the winding-up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or

(c) recourse to such borrower generally, or directly or indirectly to the Issuer, the Guarantor or any of its Material Subsidiaries, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof) by the person against whom such recourse is available;

"**ordinary course of business**" includes, without limitation:

(a) in respect of an Insurance Subsidiary:

   (i) inwards or outwards insurance or reinsurance business carried out by such Insurance Subsidiary;

   (ii) inwards or outwards transfers of insurance policies undertaken by such Insurance Subsidiary under Part VII of FSMA or any successor legislation thereto;

   (iii) stock lending transactions undertaken by or on behalf of such Insurance Subsidiary;

   (iv) investment business undertaken by or on behalf of such Insurance Subsidiary; and

   (v) any other activities carried out in accordance with INSPRU 1.5.13;

(b) in respect of an Asset Management Subsidiary, carrying out asset management activities, investment management activities and/or providing investment advice, and ancillary activities related thereto;

(c) in respect of members of the Group which are not an Asset Management Subsidiary or an Insurance Subsidiary, carrying out financial investment activities, treasury activities (such as buying and selling securities and other investments, non-speculative hedging activity and related credit support activities, but for the avoidance of doubt excluding the issuance of Indebtedness) and/or service company activities;

"**Permitted Security Interest**" means any Security Interest (as defined herein):

(a) arising by operation of law;

(b) arising in connection with Non-recourse Borrowings;

(c) arising in connection with Indebtedness issued, incurred or subsisting between members of the Group;

(d) arising in respect of deferred payment terms which are paid within six months;

(e) arising in the ordinary course of business of or on behalf of an Insurance Subsidiary or an Asset Management Subsidiary or by or on behalf of, or in respect of any Policyholder Asset or any Asset Management Subsidiary Asset;

(f) arising in connection with any pension scheme relating to employees or other staff of any member of the Group;

(g) under any retention of title arrangements and rights of set-off arising in the ordinary course of the business of the relevant member of the Group with suppliers of goods to any member of the Group;

(h) under any netting or set-off arrangement or credit support arrangements entered into under any hedging or derivative transaction and not for speculative purposes;

(i) under any netting or set-off arrangement entered into by a member of the Group in the ordinary course of the Group's banking arrangements;

(j) over or affecting any asset acquired by a member of the Group which is incurred under arrangements in existence at the date of acquisition, but only for a period of six months from the completion of the acquisition and provided that:

   (i) such security was not incurred or created in contemplation of the acquisition of that asset; and

   (ii) the principal amount secured by such security has not been increased in contemplation of, or since the date of, the acquisition of that asset;

(k) granted in connection with the amendment and/or extension of any Existing Bank Debt (as amended and/or extended where the existing borrowers under such Existing Bank Debt remain as borrowers under such amended and/or extended Indebtedness), subject to the new Security Interest being either:

(i) required or deemed beneficial in connection with any regulatory requirement applicable or which will become applicable to any member of the Group; or

(ii) on substantially similar terms (and over substantially similar assets) as an Existing Security Interest granted in connection with the same Existing Bank Debt (as so amended and/or extended);

(l) granted in connection with any Existing Bank Debt subject to the new Security Interest being required or deemed beneficial in connection with any regulatory requirement applicable or which will become applicable to any member of the Group;

(m) securing Acquired Debt, provided such Security Interest(s) over such Acquired Debt is released within six months of being acquired; or

(n) securing Indebtedness the principal amount of which (when aggregated with the principal amount of any other Indebtedness which has the benefit of such Security Interests given by any member of the Group other than any permitted under paragraphs (a) to (m) above) does not at any time exceed £20,000,000 (or its equivalent in another currency or currencies);

"**Perpetual Reset Capital Securities**" means the 6.5864 per cent. fixed / floating rate reset capital securities issued by Pearl Group Holdings (No. 1) Limited on 17 November 2005;

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

"**Policyholder Asset**" means any asset held by or on behalf of any Insurance Subsidiary in respect of a with-profits fund, a non-profit fund or a general insurance fund;

"**PRA**" means the Prudential Regulation Authority, as referred to in section 2A of FSMA or any successor thereof;

"**PRA Handbook**" means the rules made by the PRA under FSMA and any associated materials adopted by the PRA, each as amended from time to time;

"**Rating Agency**" means Fitch Ratings Ltd ("**Fitch**"), Moody's Investors Service Limited ("**Moody's**") and Standard and Poor's Credit Market Services Europe Limited ("**S&P**") (or any affiliate thereof) and/or any of their respective successors or assignees or, to the extent Fitch, Moody's or S&P (or any of their respective successors or assignees) are unavailable, 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; provided that references herein to a Rating Agency shall only be to such Rating Agency as shall have, at any time after the Issue Date, been appointed by or on behalf of the Issuer and/or the Guarantor to maintain a corporate rating and/or a rating for its senior unsecured debt (regardless of whether the appointment of the relevant Rating Agency continues at the time the relevant Rating Downgrade or Negative Rating Event, as applicable, has occurred), and shall not extend to any such Rating Agency providing ratings on an unsolicited basis;

"**Rating Change of Control**" shall be deemed to have occurred if any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), or any person or persons acting on behalf of any such persons (a "**Relevant Person**") at any time directly or indirectly owns or acquires (a) more than 50 per cent. of the issued or allotted ordinary share capital of the Guarantor or (b) shares in the capital of the Guarantor carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Guarantor, provided that a Rating Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person are, or immediately prior to the event which would otherwise have constituted a Rating Change of Control were, the shareholders of the Guarantor with the same (or substantially the same) *pro rata* interests in the share capital of the Relevant Person as such shareholders have, or as the case may be, had, in the share capital of the Guarantor;

"**Rating Change of Control Period**" means the period commencing on the earlier of (a) the date of the relevant Rating Change of Control and (b) the date of the earliest Rating Potential Change of Control Announcement (if any) and ending six months after the public announcement of the Rating Change of Control having occurred;

"**Rating Downgrade**" shall be deemed to have occurred in respect of a Rating Change of Control if:

(a) within the Rating Change of Control Period the rating previously assigned to the Bonds by any Rating Agency is withdrawn and not subsequently reinstated within the Rating Change of Control Period; or

(b) the rating assigned to the Bonds by any Rating Agency at the start of the Rating Change of Control Period shall be below an Investment Grade Rating and not upgraded to an Investment Grade Rating within the Rating Change of Control Period; or

(c) the rating assigned to the Bonds by any Rating Agency at the start of the Rating Change of Control Period shall be an Investment Grade Rating, changed from an Investment Grade Rating to a non-Investment Grade Rating (for example from BBB to BB+ by S&P, or its equivalents for the time being, or worse) and not subsequently upgraded to an Investment Grade Rating within the Rating Change of Control Period,

provided that a Rating Downgrade otherwise arising by virtue of a particular change in rating shall be deemed not to have occurred in respect of a particular Rating Change of Control if the Rating Agency making the change in rating to which this definition would otherwise apply does not announce or confirm that the withdrawal or reduction was the result in whole or in part of the occurrence of the Rating Change of Control or the relevant Potential Change of Control Announcement and provided further for the avoidance of doubt, that being placed on negative outlook or negative watch, or their equivalents, shall not constitute a Rating Downgrade;

"**Rating Potential Change of Control Announcement**" means any public announcement or statement by or on behalf of the Issuer or the Guarantor, or any actual or potential bidder or any advisor thereto relating to any potential Rating Change of Control where, within six months of the date of such announcement or statement, a Rating Change of Control occurs;

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

"**Relevant Jurisdiction**" means in relation to the Issuer, Ireland and, in relation to the Guarantor, 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 in respect of payments made by it of principal and interest on the Bonds or amounts paid under the Guarantee;

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

"**Signing Date**" means 3 July 2014;

"**Subsidiary**" means any corporation, association, partnership, joint venture, limited liability company or other business entity of which more than 50% of the total voting power of shares or other interests (including partnership and joint venture interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary refers to a Subsidiary of the Guarantor and, for the purposes of these Conditions, Share Scheme Vehicles and Investment Vehicles shall not at any time constitute Subsidiaries of the Guarantor;

"**Total Shareholder Borrowings**" means total shareholder borrowings as set-out in the most recent published financial statements of the Group or most recent management accounts of the Group, as applicable; and

"**with-profits fund**" means, in relation to an Insurance Subsidiary that carries on with-profits insurance business (as defined in the PRA Handbook), the assets held to cover that Insurance Subsidiary's liabilities in respect of its with-profits insurance business and any surplus assets attributable to that business.

2.2 **Interpretation**

References in these Conditions to any item included in the most recent published financial statements of the Group or most recent management accounts of the Group shall be deemed to refer to any item that might replace such item referred to in these Conditions from time to time, adjusted as necessary. Any reference in these Conditions to any legislation or regulation shall be to such legislation or regulation as amended, supplemented or replaced from time to time.

3. TRANSFERS OF BONDS

3.1 *Transfer*

One or more Bonds may, subject to the terms of the Paying Agency Agreement and to Conditions 3.4 (*Transfer or Exercise Free of Charge*), 3.5 (*Closed Periods*) and 3.6 (*Authorised Holdings*), be transferred in whole or in part upon the surrender (at the Specified Office of the Registrar or any Transfer Agent) of the Bond Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Bond Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Bonds represented by one Bond Certificate, a new Bond Certificate shall be issued to the transferee in respect of the part transferred and a further new Bond Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a Person who is already a holder of Bonds, a new Bond Certificate representing the enlarged holding shall only be issued against surrender of the Bond Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Principal Paying Agent. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request. A Bond may be registered only in the name of, and transferred only to, a named Person or Persons. No transfer of a Bond will be valid unless and until entered on the Register.

3.2 *Exercise of Put Option in respect of Bonds*

In the case of an exercise of the Put Option pursuant to Condition 8.3 (*Rating Change of Control Put Option*) in respect of some only of a holding of Bonds represented by a single Bond Certificate, a new Bond Certificate shall be issued to the holder to reflect the exercise of such Put Option. New Bond Certificates shall only be issued against surrender of the existing Bond Certificates to the Registrar or the Transfer Agent.

3.3 *Delivery of New Bond Certificates*

Each new Bond Certificate to be issued pursuant to Condition 3.1 (*Transfer*) or 3.2 (*Exercise of Put Option in respect of Bonds*) shall be available for delivery within three Business Days of receipt of a duly completed form of transfer or Put Option Notice (as defined in Condition 8.3 (*Rating Change of Control Put Option*)) and surrender of the existing Bond Certificate(s). Delivery of the new Bond Certificate(s) shall be made at the Specified Office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Put Option Notice or Bond Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Put Option Notice or otherwise in writing, be mailed by uninsured post at the risk and at the expense of the holder entitled to the new Bond Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify.

3.4 *Transfer or Exercise Free of Charge*

Bond Certificates, on transfer or exercise of the Put Option, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but subject to (i) the payment of any tax, duties or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application, and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

3.5 *Closed Periods*

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on the due date for redemption of that Bond, (ii) during the period of 15 days prior to any date on which Bonds may be called for redemption by the Issuer at its option pursuant to Condition 8.2 (*Issuer tax call*), or (iii) during the period of seven days ending on (and including) any Record Date (as defined herein).

3.6 *Authorised Holdings*

No Bond may be transferred or redeemed unless each of (i) the principal amount of Bonds transferred or redeemed and (ii) (where not all of the Bonds held by a holder are being transferred or redeemed) the principal amount of the balance of the Bonds not transferred or redeemed is at least £100,000.

4. STATUS OF THE BONDS

The Bonds constitute (subject to Condition 6.1 (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 6.1 (*Negative Pledge*), at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations.

5. GUARANTEE

5.1 The payment of the principal and interest in respect of the Bonds and all moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed (the "**Guarantee**").

5.2 The obligations of the Guarantor under the Guarantee constitute (subject to Condition 6.1 (*Negative Pledge*)) unsecured obligations of the Guarantor and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 6.1 (*Negative Pledge*), at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations.

6. COVENANTS

6.1 *Negative Pledge*

If no Suspension Event (as defined in Condition 6.4 (*Suspension of Covenants*)), has occurred, Condition 6.1(a) (*Negative Pledge—No Suspension Event*) shall apply and if a Suspension Event has occurred, Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall apply. If a Suspension Event ceases to be in effect, Condition 6.1(a) (*Negative Pledge—No Suspension Event*) shall again apply and Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall cease to apply; provided, however, that the provisions of Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall continue to apply if, either (i) prior to the date on which the Suspension Event occurred or (ii) whilst there is a Suspension Event, all of the Existing Bank Debt has been repaid or refinanced by Indebtedness issued by the Issuer or the Guarantor; provided, further, that the provisions of Condition 6.1(b) (*Negative Pledge—Suspension Event*) shall continue to apply and any Security Interest in respect of the Bonds which had been created pursuant to Condition 6.1(a) (*Negative Pledge—No Suspension Event*) shall be released if, either (I) prior to the date on which the Suspension Event occurred or (II) whilst there is a Suspension Event, all of the Existing Bank Debt (or any secured Indebtedness issued by the Issuer or the Guarantor that was used to refinance such Existing Bank Debt) has been repaid or refinanced by unsecured Indebtedness issued by the Issuer or the Guarantor, or the Security Interests (including any Security Interest described under clauses (k) or (l) of the definition of "Permitted Security Interest") in respect of any secured Indebtedness issued by the Issuer or the Guarantor that was used to refinance the Existing Bank Debt have been released or cease to apply.

(a) **Negative Pledge—No Suspension Event**

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Guarantor shall not permit any of its Material Subsidiaries to, directly or indirectly, create any mortgage, charge, lien, pledge, encumbrance or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction (each a

"**Security Interest**"), other than a Permitted Security Interest, upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) (other than assets representing some or all of the fund or funds maintained by the Issuer, the Guarantor or, as the case may be, the Material Subsidiary in respect of any contract of insurance (as defined in the FSMA 2000 (Regulated Activities) Order 2001) or to manage, make or realise investments in the ordinary course of business) to secure any Indebtedness or any guarantee or indemnity by the Issuer, the Guarantor or any Material Subsidiary in respect of any Indebtedness unless, at the same time or prior thereto, the obligations of the Issuer and/or the Guarantor, as the case may be, under the Bonds (in the case of the Issuer), the Guarantee (in the case of the Guarantor) and the Trust Deed (in both cases) (i) are secured by the Security Interest equally and rateably with the Indebtedness to the satisfaction of the Trustee or (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided in respect of such obligations either (A) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (B) as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) **Negative Pledge—Suspension Event**

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

6.2 ***Financial Leverage Covenant***

(a) Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any of its Subsidiaries to (i) directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, **incur**) any Indebtedness (including Acquired Debt), (ii) enter into an agreement to make any disposal, sale or transfer of any asset or future asset other than in the ordinary course of business (a "**Disposal**"), (iii) enter into an agreement to consolidate, amalgamate, merge or otherwise combine with or into or convey, transfer or lease in one or a series of transactions, all or substantially all of its assets to another Person other than in the ordinary course of business (a "**Merger**") or (iv) enter into an agreement to purchase or otherwise acquire any asset or Person other than in the ordinary course of business (an "**Acquisition**"); provided, however, that the Issuer, the Guarantor and any Subsidiary may incur Indebtedness (including Acquired Debt), or enter into an agreement to make a Disposal, complete a Merger or make an Acquisition, if the Financial Leverage Ratio on such date (the "**Calculation Date**"), after giving pro forma effect to such incurrence, issuance, Disposal, Merger or Acquisition, would have been no more than 50 per cent.; provided, however, that where the net proceeds from such incurrence, issuance, Disposal, Merger or Acquisition are committed on the Calculation Date to the repayment of existing Indebtedness (a "**Committed Repayment**"), pro forma effect may be given to the Committed Repayment as at the Calculation Date and pro forma effect may continue to be given to such Committed Repayment until the earlier of (x) the repayment of existing Indebtedness contemplated by the Committed Repayment and (y) six months from the incurrence or issuance of such Indebtedness or the completion of such Disposal, Merger or Acquisition that raised the net proceeds for such Committed Repayment. The Bonds, to the extent that the net proceeds thereof have been committed at the time of issuance to the repayment of existing Indebtedness, will not be included in any calculation of the Financial Leverage Ratio in accordance with this Condition 6.2 until

31 December 2014 to the extent not already applied in the repayment of Indebtedness. Any certificate, dated as of the Calculation Date, signed by two directors of the Guarantor as to the calculation of the Financial Leverage Ratio (as calculated on a pro forma basis to allow for such Indebtedness, Merger(s), Acquisition(s) and/or Disposal(s) in accordance with this Condition 6.2) shall, in the absence of manifest error, be conclusive and binding on all parties whether or not addressed to each such party.

(b) The provisions of Condition 6.2(a) shall not be tested in respect of: (i) any Disposal, Acquisition or Merger between members of the Group; (ii) any Disposal, Merger or Acquisition made by or on behalf of or in respect of any Policyholder Asset or any Asset Management Subsidiary Asset, (iii) Permitted Indebtedness or (iv) any incurrence of Indebtedness (including Acquired Debt) or any Disposal, Merger or Acquisition where the net proceeds of such incurrence, issuance, Disposal, Merger or Acquisition, whether in a single transaction or a series of related transactions, are less than £20,000,000.

(c) For the purposes of these Conditions, "**Permitted Indebtedness**" shall mean:

(i) Indebtedness issued, incurred or subsisting in the ordinary course of business by an Insurance Subsidiary or an Asset Management Subsidiary;

(ii) Indebtedness issued, incurred or subsisting by or on behalf of, or in respect of or to fund any Policyholder Asset or any Asset Management Subsidiary Asset;

(iii) Indebtedness in respect of some or all of the fund or funds maintained by the Issuer, the Guarantor or, as the case may be, the Subsidiary in respect of any contract of insurance (as defined in the FSMA 2000 (Regulated Activities) Order 2001) or in respect of the management or making of investments in the ordinary course of business; and

(iv) any Indebtedness issued, incurred or subsisting between members of the Group.

6.3 ***Anti-layering***

(a) None of the Issuer, the Guarantor nor any Material Subsidiary of the Guarantor will incur any Indebtedness unless such Indebtedness is contractually subordinated in right of payment or *pari passu* to the Bonds and the Guarantee on substantially identical or more favourable terms to the Bondholders and (b) none of the Guarantor or any Material Subsidiary of the Guarantor will incur, guarantee or otherwise become liable under any Indebtedness, unless such Material Subsidiary simultaneously provides a guarantee to the Bonds which shall rank senior to or *pari passu* with such Indebtedness; provided, however, that (i) the provisions of this Condition 6.3 do not apply to (A) any amendment and/or extension of the Existing Bank Debt where the existing borrowers under such Existing Bank Debt remain as borrowers under such amended and/or extended Indebtedness with substantially the same Security Interest (or a Security Interest described under clauses (k) or (l) of the definition of "Permitted Security Interest" as contemplated by Condition 6.1 (*Negative Pledge*)), (B) any Acquired Debt (1) which had it been issued, subsisting or incurred by a member of the Group would have been Permitted Indebtedness or (2) which is repaid or refinanced by Indebtedness issued by the Issuer or the Guarantor within six months of being acquired that would otherwise be permitted under this Condition 6.3, (C) Permitted Indebtedness, (D) Indebtedness which is raised for regulatory purposes as subordinated capital or (E) Non-recourse Borrowings by any Insurance Subsidiary or any Asset Management Subsidiary in connection with value in force or embedded value monetisations, securitisations and analogous financings, (ii) no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer, the Guarantor or a Material Subsidiary of the Guarantor solely by virtue of being unsecured or by virtue of being secured or by virtue of being secured on a junior priority basis or by virtue of the application of waterfall or other payment ordering provisions affecting different tranches of Indebtedness, and (iii) notwithstanding the foregoing, this Condition 6.3 shall not prohibit, and the Issuer, the Guarantor and any Material Subsidiary of the Guarantor are entitled to incur any Indebtedness not otherwise described in (i) and (ii) above and when taken together with the principal amount of all other Indebtedness incurred pursuant to this sub-paragraph (iii) then outstanding, up to a maximum amount from time to time outstanding of £100,000,000.

6.4 ***Suspension of Covenants***

If, on any date following the Signing Date, the Bonds are given an Investment Grade Rating by at least one of the Rating Agencies and no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which the Bonds cease to have an Investment Grade Rating from at least one of the Rating Agencies, the provisions of Conditions 6.2 (*Financial Leverage Covenant*), 6.3 (*Anti-layering*) and 8.3 (*Rating Change of Control Put Option*) will cease to apply unless such Suspension Event shall cease to apply.

Notwithstanding the foregoing, such provisions will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect; provided, however, that such provisions shall continue to cease to apply if, prior to the date on which the Suspension Event would otherwise cease to be in effect, all of the Existing Bank Debt has been repaid or refinanced by Indebtedness issued by the Issuer or the Guarantor. Such provisions will not, however, be of any effect with regard to actions of the Issuer or the Guarantor properly taken in compliance with the provisions of the Trust Deed during the continuance of the Suspension Event.

The Issuer has covenanted under the Trust Deed to notify the Trustee and the Bondholders promptly upon becoming aware of the occurrence of a Suspension Event and when such Suspension Event is no longer continuing. The Trustee shall have no duty to monitor or enquire as to the occurrence of a Suspension Event or whether, once any such event has occurred, it is continuing. Pursuant to the Trust Deed the Trustee is entitled, absent express notice or actual notice to the contrary, to assume that the Issuer and the Guarantor are complying with their obligations, including, without limitation, the covenants set out herein. The Trustee shall not monitor compliance by the Issuer or the Guarantor of their respective obligations in relation to the covenants in this Condition 6 or otherwise.

7. INTEREST

The Bonds bear interest from the Issue Date at the rate of 5.75 per cent. per annum, (the "**Rate of Interest**") payable annually in arrear in equal instalments of £57.50 per Calculation Amount on 7 July in each year commencing 7 July 2015 (each, an "**Interest Payment Date**"), subject as provided in Condition 9 (*Payments*).

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the relevant Bond Certificate representing such Bond thereof, 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 whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 21 (*Notices*).

Where interest is to be calculated in respect of a period which is shorter than a Regular Period, the interest payable in respect of each Bond shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the actual number of days in the Calculation Period, divided by the product of (1) the actual number of days in the Regular Period during which it falls and (2) the number of such Regular Periods in any year 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 Bond divided by the Calculation Amount.

Where interest is to be calculated in respect of a period which is longer than one Regular Period, the interest payable in respect of each Bond shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the sum of: (x) the actual number of days in the Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of such Regular Periods in any year; and (y) the number of days in the Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of such Regular Periods in any year 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 Bond divided by the Calculation Amount.

For the purposes of this Condition 7:

"**Calculation Amount**" means £1,000;

"**Calculation Period**" any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Regular Period); and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

8. Redemption and Purchase

8.1 *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 7 July 2021. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 8 and as provided in Condition 9 (*Payments*).

8.2 *Issuer tax call*

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

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or the UK, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction or the UK, which change or amendment becomes effective on or after the Signing Date:

  (i) on the next Interest Payment Date, the Issuer will be required to pay additional amounts as provided or referred to in Condition 10 (*Taxation*); or

  (ii) on the next Interest Payment Date, the Guarantor, in making payment pursuant to the Guarantee, will be required to pay such additional amounts; and

(b) the requirement 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, having given not less than 30 nor more than 60 days' notice to the Trustee and the Bondholders in accordance with Condition 21 (*Notices*) (which notice shall state that the provisions of this Condition 8.2 are satisfied and shall be irrevocable), redeem all the Bonds, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts, were a payment in respect of the Bonds or the Guarantee, as the case may be, then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer or the Guarantor, as the case may be, stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, and the Trustee shall be entitled to accept, without further enquiry and without liability to any person, the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders.

8.3 *Rating Change of Control Put Option*

If at any time while any Bond remains outstanding:

(a) a Rating Change of Control occurs; and

(b) a Rating Downgrade or a Negative Rating Event occurs within the Rating Change of Control Period,

then a put event shall be deemed to have occurred (a "**Put Event**"), and each holder of the Bonds shall have the option (the "**Put Option**") (unless, before the giving of the Put Event Notice, the Issuer shall have given notice under Condition 8.2 (*Issuer tax call*) to redeem the Bonds) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) any of its Bonds at 101 per cent. of their principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Put Date. The Put Option shall operate as set out below.

If a Put Event occurs then, promptly following such Put Event, the Issuer shall notify the Trustee in writing and shall, and if the Issuer does not, the Trustee upon receiving such express notice or actual notice may, and, if so requested by the holders of at least one-fifth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders, shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice (a "**Put Event Notice**") to the Bondholders in accordance with Condition 21 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

To exercise the Put Option, a holder of Bonds must deliver at the Specified Office of any Paying and Transfer Agent on any Business Day within 30 days of the occurrence of a Put Event or, if later, the giving of the Put Event Notice (the "**Put Period**") as required by this Condition 8.3 (*Rating Change of Control Put Option*), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the Bond Certificate for such Bonds is held in a clearing system, be any form acceptable to the clearing systems delivered in any manner acceptable to the clearing systems) obtainable from any Specified Office of any Paying and Transfer Agent (a "**Put Option Notice**") and on which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the Bond Certificate for such Bonds or evidence satisfactory to the Paying and Transfer Agent concerned that the Bond Certificate for such Bonds will, following the delivery of the Put Option Notice, be held to its order or under its control.

The Issuer shall redeem (or, at its option, purchase or procure the purchase of) the Bonds the subject of each Put Option Notice on the date (the "**Put Date**") seven days after the expiration of the Put Period unless previously redeemed or purchased and cancelled. A Put Option Notice given by a holder of any Bond shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Option Notice.

The Trustee shall not be required to take any steps to ascertain whether a Put Event or any event which could lead to the occurrence of a Put Event has occurred and will not be responsible or liable to Bondholders for any loss arising from any failure by it to do so.

8.4 ***Purchase***

Each of the Issuer, the Guarantor and each of their Subsidiaries from time to time may at any time purchase or procure others to purchase for its own account Bonds in the open market or otherwise at any price. The Bonds so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise as the case may be in compliance with Condition 8.5 below (*Cancellation*). The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 16.1 (*Meetings of Bondholders*).

8.5 ***Cancellation***

All Bond Certificates representing Bonds purchased by or on behalf of the Issuer which are surrendered for cancellation to the Registrar shall be cancelled forthwith upon surrender thereof. Any Bond Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

9. PAYMENTS

9.1 ***Principal***

Payments of principal shall be made by a cheque in pounds sterling drawn on, or, upon application by a Bondholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a pounds sterling account (or other account to which pounds sterling may be credited or transferred) maintained by the payee with, a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

9.2 ***Interest***

Payments of interest shall be made by a cheque in pounds sterling drawn on, or upon application by a Bondholder to the Specified Office of the Principal Agent not later than the Record Date, by transfer to a pounds sterling account (or other account to which pounds sterling may be credited or transferred) maintained by the payee with, a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificates at the Specified Office of any Paying Agent.

9.3 ***Payments subject to fiscal laws***

All payments in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto.

9.4 ***Payments on business days***

Where payment is to be made by transfer to a pounds sterling account (or other account to which pounds sterling may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment (or, if the due date is not a business day, the next succeeding business day) and the day on which the relevant Bond Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment (or, if the due date is not a business day, the next succeeding business day). A Bondholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 9 arriving after the due date for payment or being lost in the mail. In this Condition 9.4, "**business day**" means:

(a) in the case of payment by transfer to a pounds sterling account (or other account to which pounds sterling may be credited or transferred) as referred to above, any day on which banks are open for general business (including dealings in foreign exchange and foreign currencies) in London; and

(b) in the case of surrender (or, in the case of part payment only, endorsement) of a Bond Certificate, any day on which banks are open for general business (including dealings in foreign exchange and foreign currencies) in the place in which the Bond Certificate is surrendered (or, as the case may be, endorsed).

9.5 ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Bond, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Bond Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Bond Certificate.

9.6 ***Record date***

Each payment in respect of a Bond will be made to the person shown as the holder in the Register at the opening of business in the place of the Specified Office of the Registrar on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

10. TAXATION

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Bonds, and all payments by 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 or within Ireland (in the case of the Issuer) and within the Cayman Islands or Jersey (in the case of the Guarantor) or in any Relevant Jurisdiction, or in each case any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer or the Guarantor, as the case may be, shall pay such additional amounts as will result in receipt by the Bondholders 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 Bond:

(a) **Other connection:** held by a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond; or

(b) **Surrender more than 30 days after the Relevant Date:** where presentation is required, presented 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 Bond Certificate representing such Bond for payment on the last day of such period of 30 days; or

(c) **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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying Agent:** where (in the case of a payment of principal or interest on redemption) the relevant Bond Certificate is surrendered for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by surrendering the relevant Bond Certificate to another Paying Agent in an EU member state.

Relevant Date in respect of any Bond 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 Bondholders that, upon further surrender of the Bond Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

11. EVENTS OF DEFAULT

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

(a) **Non-Payment:** default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or

(b) **Breach of Other Obligation:** the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer or the Guarantor, as the case may be, of notice requiring the same to be remedied; or

(c) **Cross-Default:** (i) any Indebtedness, other than Indebtedness issued, incurred or subsisting between members of the Group, of the Issuer, the Guarantor or any Material Subsidiary becomes due and payable and is accelerated prior to the stated maturity thereof by reason of any actual or potential event of default or the like (however described); (ii) the Issuer, the Guarantor or any Material Subsidiary fails to make any payment in respect of any Indebtedness, other than Indebtedness issued, incurred or subsisting between members of the Group, on the due date for payment as extended by any originally applicable grace period; (iii) any mortgage, charge, pledge, lien or other encumbrance created or assumed by the Issuer, the Guarantor or any Material Subsidiary for any Indebtedness, other than Indebtedness issued, incurred or subsisting between members of the Group, becomes enforceable and any step is taken to enforce the same; unless the aggregate amount of Indebtedness from time to time outstanding relating to all or any of the above events is less than £50,000,000 (or the equivalent in any other currency); or

(d) **Winding-Up:** any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer, the Guarantor or any Material Subsidiary, save (i) for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution or (ii) for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent; or

(e) **Cessation of business:** the Issuer, the Guarantor or the Group ceases or threatens to cease to carry on all or, in the opinion of the Trustee, substantially all of its business, save for the purposes of an amalgamation, merger, consolidation, transfer, reorganisation or restructuring whilst solvent (on terms approved in writing by the Trustee or by an Extraordinary Resolution); or

(f) **Insolvency:** (i) the Issuer, the Guarantor or any Material Subsidiary stops or is unable to pay its debts (or any class of its debts) as they fall due, or suspends or threatens to stop payment of its debts, or (ii) proceedings are initiated against the Issuer, the Guarantor or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, examiner, administrator or other similar official, or an administrative or other receiver, manager, examiner, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any Material Subsidiary, as the case may be, in relation to all or, in the opinion of the Trustee, substantially all of the undertakings or assets of any of them or an encumbrancer takes possession of all or, in the opinion of the Trustee, substantially all of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or, in the opinion of the Trustee, substantially all of the undertaking or assets of any of them, and (iii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 30 days, save in each case for the purposes of or pursuant to an amalgamation, reorganisation or restructuring of the Issuer or the Guarantor or any Material Subsidiary, as the case may be, whilst solvent; or

(g) **Ownership:** the Issuer ceases to be controlled and majority owned by members of the Group; or

(h) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of Ireland and the Cayman Islands is not taken, fulfilled or done; or

(i) **Guarantee:** the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(j) **Analogous Events:** any event occurs which, under the laws of any relevant jurisdiction, has or may have an analogous effect to any of the events referred to in subparagraphs (d) and (f) above.

12. Prescription

Claims against the Issuer and the Guarantor for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

13. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, stock exchange regulations or other relevant regulatory authority regulations, at the Specified Office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

14. Paying Agents

In acting under the Paying Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain a principal paying agent and a registrar, a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive and such other agents as may be required by any stock exchange on which the Bonds may be listed, in each case, as approved by the Trustee.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Bondholders in accordance with Condition 21 (*Notices*).

15. Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of certain other entities in place of the Issuer or the Guarantor, or any previous substituted company, as principal debtor, or guarantor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds 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 Bondholders.

16. Meetings of Bondholders and Modification

16.1 *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction) or Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or any interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or to cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds 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 Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. 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 Bondholders.

16.2 *Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed or the Conditions or determine that an Event of Default or Potential Event of Default will not be treated as such, provided that the Trustee will not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 16, provided that in the opinion of the Trustee the interests of the Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.

17. Enforcement

At any time after the Bonds become due and payable, the Trustee (subject to Condition 18 (Non-petition)) may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-fifth in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

18. Non-petition

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

No Bondholder shall have any recourse against any Director of the Issuer in their capacity as director of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Bonds, other than in the case of fraud.

19. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely without further enquiry and without liability to any person on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

20. Further Issues

The Issuer may from time to time without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds). References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

21. NOTICES

Notices to the Bondholders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to Bondholders will be valid if published, for so long as the Bonds are admitted to trading on the London Stock Exchange plc and the rules of such exchange so require, via a regulatory news service. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

22. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

23. GOVERNING LAW AND JURISDICTION

23.1 ***Governing Law***

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

23.2 ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with any Bonds or the Guarantee ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor has irrevocably submitted to the jurisdiction of such courts.

23.3 ***Agent for Service of Process***

Pursuant to the Trust Deed, the Guarantor has irrevocably appointed an agent in England to receive service of process in any proceedings in England based on the Bonds or the Guarantee.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Conditions set out in this Prospectus. The following is a summary of certain of those provisions:

1. EXCHANGE

Registered Bonds

The Bonds will be represented by a Global Certificate which will registered in the name of Citibank Europe plc as nominee for, and deposited with, a common safekeeper (or its nominee) for Euroclear and Clearstream, Luxembourg. Depositing the Global Certificate with the common safekeeper does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Global Certificate will become exchangeable in whole, but not in part, for Individual Bond Certificates if (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 11 (*Events of Default*) occurs.

Whenever the Global Certificate is to be exchanged for Individual Bond Certificates, such Individual Bond Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

2. PAYMENTS

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made to the registered holder and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. For the purpose of any payments made in respect of a Global Certificate, Condition 9.4 (*Payments on business days*) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Bonds.

3. NOTICES

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

4. PRESCRIPTION

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*)).

5. MEETINGS

The holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Bonds.

6. Purchase and Cancellation

Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond.

7. Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holder of the Global Certificate.

8. Record Date

Each payment in respect of a Global Certificate will be made to the person shown as the Noteholder in the Register at the close of business on the Clearing System Business Day before the due date for such payment (the "**Record Date**"), where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

9. Put Option

The Bondholders' put option in Condition 8.3 may be exercised by the holder of the Global Certificate, giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised.

10. Electronic Consent and Written Resolution

Whilst the Global Certificate is registered in the name of any nominee for a 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 75 per cent. in nominal amount of the Bonds outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes, take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the 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, the Guarantor and the Trustee 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 Bondholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "commercially reasonable evidence" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Bonds. 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 Bonds is clearly identified together with the amount of such holding. Neither the Issuer, the Guarantor nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds will be used by the Issuer to reduce the debt outstanding under the Impala Facility Agreement, which includes debt owed to certain of the Joint Lead Managers (HSBC Bank plc and Lloyds Bank plc) who are lenders under the Impala Facility Agreement.

The reduction in the Group's level of bank debt may facilitate in due course the simplification of the Group's bank debt to a single banking silo. The Group is currently in discussions with a group of lenders in relation to a proposed new unsecured facility which would be used to repay the Impala Facility, the Pearl Facility, the PIK Facility, the PIK Notes and the Lender Loan Notes. The Group is aiming to enter into the Proposed Refinancing as soon as it is able to do so but terms have not yet been agreed and there can be no certainty that the Proposed Refinancing will be completed.

TAXATION

The following is a general description of certain UK, Jersey, Irish and Cayman Islands tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds whether in those countries or elsewhere. It relates to the position of persons who are the absolute beneficial owners of the Bonds and some aspects do not apply to certain classes of taxpayer (such as dealers and Bondholders 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 Bondholders 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 Bonds, or any person through which an investor holds Bonds, of a custodian, collection agent or similar person in relation to such Bonds 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.

1. 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.

2. 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.

Bondholders 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 Bonds held by them. Bondholders who are resident for income tax purposes in Jersey will be subject to income tax in Jersey on any interest paid on Bonds 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 Bonds. Stamp duty is payable at a rate up to approximately 0.75 per cent. of the value of Bonds 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 Bonds 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.

3. Ireland

3.1 *Taxation of Bondholders*

(a) 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 Bonds. However 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 Bond while the Bonds continue to be quoted on the London Stock Exchange and are held in Euroclear and/or Clearstream, Luxembourg. If the Bonds continue to be quoted but cease to be held in a recognised clearing system, interest on the Bonds 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. Under certain anti-avoidance legislation, it is possible that interest that is to any extent dependent on the profits of the Issuer could be treated as a distribution and therefore subject to dividend withholding tax. This provision will not apply if either: (i) as is expected, the Issuer is not in possession, or aware, of any information which could reasonably be taken to indicate whether or not the beneficial owner of the Bonds would be subject to tax on any interest payments; or (ii) the interest is subject to tax in an Irish treaty country or an EU member state.

(b) 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 Bond, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Bondholder. 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.

(c) Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Bondholder may receive interest on the Bonds free of withholding tax, the Bondholder may still be liable to pay Irish tax with respect to such interest. Bondholders 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 Bonds.

Interest paid on the Bonds may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Bondholders who are non-resident individuals such Bondholders may also be liable to pay the universal social charge in respect of interest they receive on the Bonds.

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. Interest falling within these exemptions is also exempt from the universal social charge.

Notwithstanding the exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Bonds 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.

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 Bondholder.

(d) Capital Gains Tax

A Bondholder will not be subject to Irish tax on capital gains on a disposal of Bonds unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Bonds were used or held.

(e) Capital Acquisitions Tax

A gift or inheritance comprising of Bonds will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be 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 Bonds are regarded as property situate in Ireland (i.e. if the Bonds are physically located in Ireland or if the register of the Bonds is maintained in Ireland)).

(f) Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Bonds are used in the course of the Issuer's business), on the issue, transfer or redemption of the Bonds.

(g) The Savings Directive

Ireland has implemented the Savings Directive into national law. Accordingly, any Irish paying agent that may (after the Issue Date) be appointed in respect of the Bonds making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Bondholder (including the Bondholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer, or any person or agent acting on behalf of the Issuer, shall be entitled to require Bondholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in the Savings Directive and Bondholders will be deemed by their subscription for Bonds 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.

4. UNITED KINGDOM

4.1 ***General***

The comments in this part are based on current UK tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs). They assume that the Finance Bill, as ordered to be printed on 5 June 2014, will be enacted without amendment. They assume that neither the Issuer nor the Guarantor is UK resident or acts through a permanent establishment in the UK in relation to the Bonds. 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 Bonds 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 Bonds 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 Bondholders.

4.2 ***Interest on the Bonds***

Payments of interest on the Bonds may be made without deduction or withholding on account of United Kingdom ("**UK**") income tax provided that such interest does not have a UK source. However, the source of payments of interest on the Bonds is unclear.

Payments of interest which have a UK source may still be made without deduction of or withholding on account of UK income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of UK tax.

In all other cases, if the interest were to be treated as having a UK source it would be subject to UK withholding tax at the basic rate (currently 20%), 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 Bondholders 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).

4.3 ***Payments by Guarantor***

On the basis that the Guarantor is incorporated and tax resident outside the UK, payments by it under the Guarantee should not be treated as arising in the UK and accordingly 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, it is possible that any payments by the Guarantor would be subject to UK withholding tax at the basic rate (currently 20%), subject to any claim which could be made under applicable double tax treaties and except that any withholding would 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).

4.4 ***Treatment of any Premium Payable on Redemption***

Where Bonds are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest that would be subject to the rules on United Kingdom withholding tax outlined above and reporting requirements as outlined below.

4.5 ***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 Bonds, details of the holders or beneficial owners of the Bonds (or the persons for whom the Bonds are held), details of the persons to whom payments derived from the Bonds are or may be paid and information and documents in connection with transactions relating to the Bonds. Information may be required to be provided by, amongst others, the holders of the Bonds, persons by (or via) whom payments derived from the Bonds 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 Bonds 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.

4.6 ***Taxation of Disposal (including Redemption) and Return***

(a) UK Corporation Taxpayers

In general, Bondholders which are within the charge to UK corporation tax (including non-resident bondholders whose Bonds are used, held or acquired for the purposes of a trade carried on in the UK through a permanent establishment) will be treated for tax purposes as realising profits, gains or losses (including exchange gains and losses) in respect of the Bonds on a basis which is broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes. Such profits, gains and losses (or where the Bondholder's functional currency is not sterling, then the sterling equivalent of such profits, gains and losses as computed in the Bondholder's functional currency) will be taken into account in computing taxable income for corporation tax purposes.

(b) Other UK Taxpayers

Interest

Bondholders who are either individuals or trustees and are resident for tax purposes in the UK or who carry on a trade, profession or vocation in the UK through a branch or agency to which the Bonds are attributable will generally be liable to UK tax on the amount of any interest received in respect of the Bonds.

Taxation of Chargeable Gains

The Bonds are "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

Accrued Income Scheme

The provisions of the accrued income scheme (the "**Scheme**") may apply to certain Bondholders who are not subject to corporation tax, in relation to a transfer of the Bonds. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount under the provisions of Chapter 2 of Part 12 of the Income Tax Act 2007 (Accrued Income Profits and Losses). Generally, persons who are neither resident nor ordinarily resident in the UK and who do not carry on a trade, profession or vocation in the UK through a branch or agency to which the bonds are attributable will not be subject to the provisions of these rules.

(c) Other Bondholders

A Bondholder who, for UK tax purposes, is neither UK resident nor a non-UK resident person holding Bonds attributable to a trade, profession or vocation carried on in the UK through a branch or agency or a permanent establishment, will not be subject to UK tax on any interest received on the Bonds or any fluctuations in value of the Bonds or any other profits or gains arising in respect of the Bonds except to the extent that UK income tax is deducted at source and, as regards individuals, to the extent of any gains arising whilst temporarily non-resident.

4.7 ***Stamp Duty and Stamp Duty Reserve Tax (SDRT)***

No UK stamp duty, SDRT or similar tax or duty is payable in the UK on the issue, transfer or redemption of the Bonds.

5. 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 and Luxembourg are instead required to 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 they elect 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. The Luxembourg government has announced its intention to opt out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

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.

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

6. FINANCIAL TRANSACTION TAX

The European Commission has also 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 apply to certain dealings in financial instruments (including secondary market transactions). The FTT could apply to persons both within and outside of the participating EU Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State.

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 Bond.

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 Bonds are advised to seek their own professional advice in relation to the FTT.

7. Gross up

The attention of Bondholders is drawn to Condition 10 (*Taxation*) of the Conditions.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc and Lloyds Bank plc (together, the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 3 July 2014, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the Bonds or procure subscribers for the Bonds at 100 per cent. of their principal amount (the "**Issue Price**"). The Issuer has agreed to pay to the Joint Lead Managers a combined management, underwriting and selling commission. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The yield of the Bonds is 5.75 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.

1. General

Neither the Issuer nor the Guarantor nor any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Issuer or the Guarantor that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantor or any other Joint Lead Manager in any such jurisdiction as a result of any of the foregoing actions.

2. United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("**Regulation S**").

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Bonds and the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bonds and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of Bonds and the Guarantee within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

3. United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

4. Cayman Islands

The Bonds may not be sold by the Issuer or on behalf of the Issuer within the Cayman Islands unless the Issuer is registered as a foreign company in compliance with the Companies Law. The Issuer does not intend to sell the Bonds or permit the Bonds to be sold on its behalf within the Cayman Islands and, accordingly, is not registered and does not intend to register as a foreign company in the Cayman Islands.

5. Ireland

Each Joint Lead Manager has represented and agreed that:

(a) it will not underwrite the issue of, or place the Bonds, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) as amended, including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, any Bonds, otherwise than in conformity with the provisions of the Companies Acts 1963 - 2013, the Central Bank Acts 1942 - 2013 and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of any Bonds otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended, and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank of Ireland; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of any Bonds, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005, as amended, and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

GENERAL INFORMATION

General

1. The listing of the Bonds 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 Bonds on the Official List and admission of the Bonds to trading on the Regulated Market will be granted on or around 8 July 2014, 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.

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 Bonds and the Guarantee. The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 17 June 2014 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 May 2014.

3. The Bonds 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 108176873. The International Securities Identification Number (ISIN) for the Bonds is XS1081768738.

   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

4. Since the date of incorporation of the Issuer, there has been (i) no significant change in the financial or trading position of the Issuer and (ii) no material adverse change in the financial position or prospects of the Issuer.

5. Since 31 December 2013, other than the Divestment of Ignis Asset Management, there has been no significant change in the financial or trading position of the Guarantor and its subsidiaries.

6. Since 31 December 2013, there has been no material adverse change in the financial position or prospects of the Guarantor and its subsidiaries.

Material Contracts of the Issuer

7. There are no material contracts entered into other than in the ordinary course of business, which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Bondholders in respect of the Bonds.

Material Contracts of the Guarantor

8. 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) **Opal Re Funding and Dividend Contribution Agreement**

For a description of the Opal Re Funding and Dividend Contribution Agreement, see "*Description of Certain Other Indebtedness—Opal Re Funding and Dividend Contribution Agreement*" .

(b) **Credit Facilities**

For a description of the Pearl Facility Agreement, the Pearl Intercreditor Agreement, the Impala Facility Agreement (including the Impala Facility Amendment and Restatement Agreement), the Impala Intercreditor Agreement and the Pearl/Opal Re Side Letter, see "*Description of Certain Other Indebtedness—Credit Facilities*".

(c) **Lender Relationship Agreement**

The Guarantor entered into a lender relationship agreement with the Lenders which also hold shares in the Guarantor (collectively, the "**Lender Shareholders**") dated 27 June 2009 (as amended, the "**Lender Relationship Agreement**"). The Lender Relationship Agreement is governed by English law.

(1) Corporate governance and related matters

Under the Lender Relationship Agreement, the Guarantor agreed to afford the Lender Shareholders significant corporate governance rights and approvals.

Notwithstanding that, following its Premium Listing, the Guarantor is not required by the Listing Rules to comply with the UK Corporate Governance Code, the Guarantor agreed contractually, prior to achieving the Premium Listing, to comply as far as reasonably practicable with the main principles, supporting principles and provisions of the UK Corporate Governance Code, except to the extent that doing so would conflict with the Guarantor's obligations under the Lender Relationship Agreement.

The Guarantor is also required to fully cooperate with each of the reviews recommended in connection with any FCA and/or PRA guidance provided to the Guarantor and to use reasonable endeavours to implement, to the satisfaction of the FCA and/or PRA, any of the steps recommended by the FCA and/or PRA from time to time.

No person may be appointed as Chairman unless the Lender Shareholders have approved such appointment. If the person appointed as Chairman ceases to hold office for any reason, the Guarantor is required to (i) consult with the Lender Shareholders as to the choice of candidates for such office and (ii) unless the Lender Shareholders agree otherwise, appoint one of the independent Non-Executive Directors of the Board to act as Chairman pending the appointment of a new Chairman. If no independent Non-Executive Director accepts such appointment, the appointment by the Guarantor of an interim Chairman will be subject to the approval of the Lender Shareholders.

Under the Lender Relationship Agreement, the Lender Shareholders have the right:

- to nominate a person for appointment by the Board as a Non-Executive Director (the "**Lender Non-Executive Director**"), and to nominate any replacement thereof;
- to nominate a person, expected to be the Lender Non-Executive Director, for appointment by the Board to serve on all committees of the Group's boards, and to nominate any replacement thereof;
- to nominate a person for appointment by PGH2 and Phoenix Life Holdings as a non-executive director of PGH2 and Phoenix Life Holdings respectively; and
- to appoint a representative to attend any meeting of the Board, or any committee thereof, as an observer (the "**Observer**"). The Lender Shareholders appointed the Observer on 5 November 2009.

Subject to the views of the FCA (and PRA), the Lender Shareholders must, prior to the nomination of the Lender Non-Executive Director, the PGH2 non-executive director or the appointment of the Observer, consult with the Guarantor as to the suitability of the candidates. The Lender Shareholders may not nominate or appoint anyone with any material connections with any material competitor to the Group or who the Guarantor reasonably considers is likely to be adverse to the interests of the Group.

Under the Lender Relationship Agreement the Guarantor must, among other things, ensure that:

- the Chairman shall, at all times, be "**Independent**" under the criteria set out in Provision A.3.1 of the UK Corporate Governance Code;
- Independent Non-Executive Directors will at all times comprise no less than half of the Board;
- if any person appointed as a Lender Non-Executive Director is required under the Memorandum and Articles of Association to submit himself for re-election at any annual general meeting of the Guarantor, the Board will include such person in the notice of such annual general meeting sent to the shareholders of the Guarantor as being subject to re-election and the Board will not knowingly take any action to prejudice the re-appointment of such person;
- the Chairman has the powers and duties specified in the Lender Relationship Agreement (including, without limitation, the right to: (i) chair the Board and general meetings of the Guarantor and meetings of the nomination committee, including setting the agenda of such meetings, (ii) challenge and contribute to the development of strategy, (iii) scrutinise the performance of management, (iv) satisfy

himself that financial information is accurate and that financial controls and systems of risk management are robust and defensible, (v) be responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing senior management and in succession planning and (vi) serve on the remuneration committee of the Board and attend all such committee meetings); and

- the Lender Non-Executive Director will receive copies of all correspondence with the FCA and/or PRA relating to the solvency position of the Guarantor or any of its subsidiaries or the non-compliance by the Guarantor or any of its subsidiaries with any applicable law or regulation.

Further, under the Lender Relationship Agreement the Guarantor must, among other things, ensure that:

- the appointment of any person (other than the Lender Non-Executive Director) as a director or member of any committee of the Guarantor or its subsidiaries is approved in writing by the Chairman;
- the entry by any member of the Group into any agreement, transaction or arrangement with any of TDR Capital and Sun Capital or any of their respective affiliates or other related parties, or the amendment of the terms of any such related party transaction, will be subject to the prior approval of the Lender Shareholders; and
- any amendment of the terms of reference of any committee of the Board of any member of the Group will be subject to the prior written approval of the Lender Shareholders.

The Guarantor must also adopt and cause the other members of the Group to adopt the charter referred to in FCA and/or PRA guidance (setting out the extent of the permitted involvement of any shareholders of the Guarantor in the activities of the Group and putting in place procedures to monitor compliance) as soon as practicable and in any event prior to any deadline set by the FCA and/or PRA for implementation. Thereafter the Guarantor must use all reasonable endeavours to comply, and to cause the other members of the Group to comply, with such charter.

(2) Amendment to the Memorandum and Articles of Association

The Lender Relationship Agreement provides that if the Guarantor adopts any amendments to articles 176, 179 and 250-258 of the Memorandum and Articles of Association, then the Guarantor will be in breach of the Lender Relationship Agreement. In addition, the Guarantor must use all reasonable endeavours to prevent any amendment to the Memorandum and Articles of Association which would restrict the rights of the Lender Shareholders under the Lender Relationship Agreement.

(3) Capital distributions

Under the Lender Relationship Agreement, the Guarantor has agreed not to make any capital distributions (as defined in the Contingent Fee Agreement and which term excludes any dividends payable out of distributable profits arising from ordinary course trading revenues of the Group) without the prior consent of the Lender Shareholders for so long as (i) any Lender Warrants remain outstanding or (ii) the Contingent Fee Agreement remains in force.

(4) Approval mechanism

The Lender Relationship Agreement requires the Lender Shareholders to appoint an agent to exercise the rights of the Lender Shareholders under the Lender Relationship Agreement, and such agent is authorised to give or make all waivers, approvals, nominations or consents, and be party to all consultations on behalf, of the Lender Shareholders thereunder. This agent may only exercise such rights in accordance with the instructions of Lender Shareholders who together hold more than two-thirds of their aggregate commitments under the Impala Facility Agreement and the Pearl Facility Agreement.

(d) **Royal London Agreements**

For a description of the PIK Documents, see "*Description of Certain Other Indebtedness—Royal London Agreements*".

(e) **Pearl Group Staff Pension Scheme Agreements**

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 is due to be paid on 30 September 2014, followed by payments of £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 60 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 (in each case from the Pearl silo) 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 in 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 currently capped at the lower of £600 million and 60 per cent. of the Gilts Based Deficit. Immediately following the repayment of the Pearl Facility and the Pearl C Loan Notes, the 2012 Pensions Agreement provides for an increase to the value of the security claim to 100 per cent. of the Gilts Based Deficit revalued every three years, subject to a £600 million cap. This increase shall cease to apply 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 permit the Pearl Lenders to enforce their security in connection with the Pearl Facility 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 will be subject to the statutory funding regime in the Pensions Act 2004.

The agreement reached with the trustee of the Pearl Group Staff Pension Scheme in the 2012 Pensions Agreement resulted in a £0.3 billion increase in the Group's PLHL ICA surplus. The sensitivity of the Group's PLHL ICA surplus to external market stresses is significantly reduced as a consequence of agreement reached with the trustee of the Pearl Group Staff Pension Scheme in the 2012 Pensions Agreement.

(f) **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 31 December 2013 the principal obligations that are subject to the guarantee are cash contributions totalling £59 million over the period to August 2017. The performance of Pearl Life Holdings Limited under the guarantee has been guaranteed by PGH1.

(g) **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 arrears 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 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.

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.

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 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 to the 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.

(h) **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 "**Tier 2 Bonds**"). With effect from 1 January 2009, as a part of a Part VII transfer, the Tier 2 Bonds were transferred into the shareholder fund of PLL. The Tier 2 Bonds have no fixed redemption date. The earliest date upon which PLL can redeem the Tier 2 Bonds is on 25 March 2021 and thereafter on each fifth anniversary thereafter so long as the Tier 2 Bonds are outstanding. In the event of the winding-up of PLL, the right of payment under the Tier 2 Bonds is subordinated to the rights of the higher-ranking creditors (principally policyholders). The Tier 2 Bonds are listed on the Luxembourg Stock Exchange.

(i) **Divestment Agreement**

For a description of the Divestment Agreement, see "*Information on the Group—The Divestment of Ignis Asset Management*".

Documents available for Inspection

9. 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 Bonds Certificate);

   b. the Memorandum and Articles of Association of the Issuer and the Guarantor;

   c. 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 Bonds.

   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/prices-and-news/news/market-news/market-news/home.html.*

Accountants

10. 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 the three years ended 31 December 2013.

Litigation

11. 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 or (ii) the Guarantor's or Group taken as a whole.

(a) **Acquisition of the Allianz Cornhill long-term business**

On 13 November 2012, HMRC issued a closure notice to a Group company, Britannic Finance Limited ("**BFL**"), in connection with the tax treatment of the acquisition by members of the Group of the life business of Allianz Cornhill Insurance plc in December 2004. The notice assesses additional tax of approximately £35 million (plus interest) on BFL. The Group lodged a formal appeal with HMRC against this assessment and has applied for payment of the tax and interest to be deferred while the appeal is on-going. HMRC have now lodged a statement of case with the First Tier Tribunal, in contemplation of possible litigation in the dispute. The Group has provided a list of documents to the Tribunal in support of its position, and a response to HMRC's statement of case. The Group has also provided a draft statement of facts for agreement which is currently being discussed with HMRC.

(b) **HMRC Requests for Further Information**

As part of their enquiries into the relevant tax returns, HMRC have asked for further information regarding an intra-Group reassurance agreement between certain Group Life Companies and Opal Reassurance Limited, which is tax resident in Bermuda, and certain aspects of the Group's internal financing arrangements, in particular arrangements around the financial restructurings undertaken in 2008 and 2009.

These enquiries are less advanced than the enquiry into the Allianz Cornhill acquisition referred to in the paragraph above, and as at the date of this Prospectus, no assessments of tax have been issued by HMRC. The Group is providing HMRC with the factual information that HMRC have requested. The Group currently expects that at least some of the enquiries that HMRC have raised will be closed or resolved without assessments being issued against the Group. As at the date of this Prospectus, the Group is unable to estimate with any certainty the potential financial impact of these matters.

DEFINITIONS

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

"**2009 Pensions Agreement**"	the agreement dated 2 September 2009 between PGH2 and the trustees of the Pearl Group Staff Pension Scheme;
"**2010 PD Amending Directive**"	Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010;
"**2011 Annual Report**"	the annual report and the audited and consolidated financial statements (including relevant accounting policies and notes) of the Guarantor and the audit report thereon for the year ended 31 December 2011;
"**2012 Annual Report**"	the annual report and the audited and consolidated financial statements (including relevant accounting policies and notes) of the Guarantor and the audit report thereon for the year ended 31 December 2012;
"**2012 Pensions Agreement**"	the agreement dated 27 November 2012 between PGH2 and the trustees of the Pearl Group Staff Pension Scheme;
"2013 Annual Report"	The annual report and the audited and consolidated financial statements (including relevant accounting policies and notes) of the Guarantor and the audit report thereon for the year ended 31 December 2013;
"**2014 Q1 Interim Management Statement**"	the Q1 2014 Interim Management Statement containing the Group's unaudited interim management statement as at and for the three months ended 31 March 2014, published on 1 May 2014;
"**Acquired OPB Companies**"	LCA, LCB, TC1, TC2 and Opal Re;
"**ACSM**"	the alternative coupon satisfaction mechanism under the Tier 1 Bonds, under which, if PGH1 opts to defer a coupon payment, the deferred coupon payment may only be satisfied through the proceeds of the issue of certain forms of securities, which may be made at any time;
"**Annual General Meeting**" or "**AGM**"	the Guarantor's annual general meeting;
"**ARROW**"	Advanced Risk Responsive Operating Framework;
"**Audit Committee**"	the audit committee of the Board;
"**Audited Financial Statements**"	the audited financial statements (including the accompanying notes) of the Group as at and for the years ended 31 December 2013, 2012 and 2011 which are contained within the 2013 Annual Report, the 2012 Annual Report and the 2011 Annual Report, respectively;
"**BMA**"	Bermuda Monetary Authority;
"**Board**" or "**Board of Directors**"	the board of directors of the Guarantor;
"**CFO Forum**"	the European Insurance CFO Forum;

"**Castle Hill JV**"	means IIML Management Limited, a Delaware incorporated entity with company number 4762852, together with its 40 per cent. shareholding in Castle Hill Asset Management LLC and its interest in Castle Hill Asset Management LLP, an FCA regulated entity with company number 521567;
"**Change in Control Approval**"	the approval by the FCA of the change in control for the Divestment of Ignis Asset Management Limited to Standard Life Investments (Holdings) Limited;
"**Change of Control**"	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: (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;
"**Citigroup**"	Citigroup Global Markets Limited;
"**Clearstream, Luxembourg**"	Clearstream Banking, *société anonyme*;
"**Companies Law**"	the Companies Law (as amended) of the Cayman Islands;
"**Completion**"	completion of the sale and purchase of the Shares in accordance with the provisions of the Divestment Agreement which occurred on 1 July 2014;
"**Contingent Fee Agreement**"	the contingent fee agreement dated 27 June 2009 between the Guarantor, the Pearl Borrowers, the Impala Borrowers and the Lenders;
"**controller**"	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;
"**controlling interest**"	in relation to a person: (a) the ownership or control (directly or indirectly) of more than fifty per cent. of the voting share capital of that party; or

	(b) the ability (directly or indirectly) to direct the casting of more than fifty per cent. of the votes exercisable at general meetings of that party, on all, or substantially all, matters; or
	(c) the right (directly or indirectly) to appoint or remove directors of that party, holding a majority of the voting rights at meetings of the board on all, or substantially all, matters;
"**Directors**"	the Executive Directors and Non-Executive Directors of the Guarantor;
"**Disclosure and Transparency Rules**"	the disclosure and transparency rules issued by the FCA;
"**Divestment**"	the Divestment of 100 per cent. of Impala's shares in Ignis Asset Management Limited for £390 million, Completion of which occurred on 1 July 2014;
"**Divestment Agreement**"	the agreement dated 25 March 2014 between the Guarantor, Impala and Standard Life Investments relating to the Divestment, described in more detail in "*Information in relation to the Divestment of Ignis Asset Management Limited*" of this Prospectus;
"**ECR**"	the Enhanced Capital Requirement;
"**EEA**"	the European Economic Area;
"**EU**"	the European Union;
"**Euro**" or "**euro**" or "**€**"	the lawful currency of the Member States of the European Union that adopted the Euro in Stage Three of the Treaty establishing the Economic and Monetary Union on 1 January 1999;
"**Euroclear**"	Euroclear Bank SA/NV;
"**Euronext Amsterdam**"	Euronext Amsterdam by NYSE Euronext;
"**Executive Committee**" or "**ExCo**"	the executive committee of PLHL that provides day-to-day direction;
"**Executive Directors**"	the executive directors of the Guarantor, as set out in "*Management of the Guarantor*";
"**FCA**"	The Financial Conduct Authority of the UK, its predecessors or its successors from time to time, including, as applicable, 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 the Official List otherwise than in accordance with Part VI of FSMA;
"**Financial Services Authority**" or "**FSA**"	the Financial Services Authority which was split into the FCA and PRA on 1 April 2013;
"**FOS**"	UK Financial Ombudsman Service;
"**FSMA**"	the UK Financial Services and Markets Act 2000, as amended;
"**GAOs**"	guaranteed annuity options;
"**GCR**"	Group Capital Resources;
"**GCRR**"	Group Capital Resources Requirement;

"**Gearing**"	the Group's 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 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;
"**Group**"	the Guarantor and its subsidiary undertakings;
"**Guarantor**"	Phoenix Group Holdings;
"**Guarantor Subordinated Debt**"	rights, title, interest and benefit in and to £325 million of the principal due under the Pearl Facility Agreement, assigned by the Pearl Lenders to the Guarantor;
"**Guardian Assurance**"	Guardian Assurance Limited;
"**High Court**"	the High Court of England and Wales;
"**HMRC**"	HM Revenue & Customs;
"**Holding Companies**"	the Guarantor, 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**"	HSBC Bank plc;
"**IAS**"	International Accounting Standards as set by the International Accounting Standards Board;
"**ICA**"	Individual Capital Assessment;
"**ICG**"	Individual Capital Guidance;
"**IFRS**"	International Financial Reporting Standards;
"**IGD**"	the EU Insurance Groups Directive (98/78/EC);
"**IGD surplus**"	the Group's IGD surplus 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 Asset Management**"	the Group's asset management business segment comprising the operations of Ignis Asset Management Limited, Ignis Investment Services Limited and Ignis Fund Managers Limited, the Group's Divestment of which completed on 1 July 2014;
"**Ignis Investment**"	Ignis Investment Services Limited;
"**Impala**"	Impala Holdings Limited;

"**Impala Agent**"	the agent of the Impala Lenders under the Impala Facility Agreement;
"**Impala Borrowers**"	LC1 and LC2;
"**Impala Consent Letter**"	the letter of consent dated 17 March 2014 from the Impala Borrowers to the Impala Facility Agent, pursuant to which the Impala Facility Agent (on behalf of the Majority Lenders) granted their consent to the Divestment subject to certain conditions;
"**Impala Covenant Group**"	the Impala Borrowers, Impala and their respective subsidiaries;
"**Impala Facility**"	the credit facility made available pursuant to the Impala Facility Agreement as amended and restated;
"**Impala Facility Agent**"	Commerzbank AG, Filiale Luxemburg;
"**Impala Facility Agreement**"	the facility agreement dated 10 October 2007, as amended and restated, entered into with the Impala Borrowers, the Impala Lenders, the book runners, the arrangers, the Impala Facility Agent and the security trustee described therein;
"**Impala Facility Amendment and Restatement Agreement**"	amendment and restatement agreement dated 30 January 2013 to the Impala Facility Agreement;
"**Impala Group**"	the Impala Borrowers, Impala and each of their respective subsidiaries;
"**Impala Intercreditor Agreement**"	the amended and restated Intercreditor Agreement between the Impala Borrowers and certain parent entities and other affiliates of the Impala Borrowers, the Impala Lenders, the administrative agent, the security trustee and the counterparties to hedging agreements previously entered into with certain members of the Impala Covenant Group;
"**Impala Intercompany Debt**"	the intercompany debt of the Guarantor and its affiliates under the Impala Intercreditor Agreement;
"**Impala Lenders**"	the lenders under the Impala Facility Agreement and the Impala Facility Amendment and Restatement Agreement;
"**Impala Senior Debt**"	the outstanding principal amount under the Impala Facility Agreement;
"**Insurance Act**"	the Bermuda Insurance Act 1978 and related regulations, as amended;
"**Investment Management Agreements**"	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;
"**LC1**"	PGH (LC1) Limited (previously Sun Capital Investments No.2 Limited);

"**LC2**"	PGH (LC2) Limited (previously Hera Investments No.2 Limited);
"**LCA**"	PGH (LCA) Limited (previously Sun Capital Investments Limited);
"**LCB**"	PGH (LCB) Limited (previously Hera Investments One Limited);
"**Lender Loan Notes**"	(i) £37.5 million of principal loan notes of LCB and (ii) £37.5 million of principal loan notes of LCA;
"**Lender Non-Executive Director**"	the Non-Executive Director of the Guarantor appointed pursuant to the Lender Relationship Agreement;
"**Lender Relationship Agreement**"	the relationship agreement entered into between the Guarantor and the Lender Shareholders on 27 June 2009, as amended;
"**Lender Shareholders**"	the Lenders which hold Ordinary Shares;
"**Lender Warrants**"	the warrants issued to certain entities providing finance to the Group on 2 September 2009;
"**Lenders**"	the Pearl Lenders and the Impala Lenders;
"**LIBOR**"	London Interbank Offered Rate;
"**Life Companies**"	the Group's life assurance business segment comprising Phoenix Life Assurance Limited, National Provident Life Limited, Phoenix Life Limited and Scottish Mutual International Limited (Ireland);
"**life company**"	a life assurance company;
"**Listing Rules**"	the listing rules issued by the FCA pursuant to Part VI of FSMA;
"**London Life**"	London Life Limited;
"**London Stock Exchange**"	London Stock Exchange plc;
"**LTIP**"	the Phoenix Group Holdings Long-Term Incentive Plan;
"**Majority Lenders**"	two thirds (by aggregate principal amount of indebtedness) of the Impala Lenders;
"**MC1**"	PGH (MC1) Limited (previously Suncap Parma Midco Limited);
"**MC2**"	PGH (MC2) Limited (previously TDR Parma Midco Limited);
"**MCEV**"	Market Consistent Embedded Value;
"**MCEV Principles**"	the European Insurance CFO Forum Market Consistent Embedded Value Principles (Copyright© Stichting CFO Forum Foundation 2008);
"**MCR**"	minimum capital requirement;
"**Memorandum**"	the memorandum of association of the Guarantor;
"**Memorandum and Articles of Association**"	the fifth amended and restated articles of association of the Guarantor;

"**MiFID**"	the EU Markets in Financial Instruments Directive (2004/39/EC);
"**National Provident Life**"	National Provident Life Limited;
"**Non-Executive Directors**"	the non-executive directors of the Guarantor, as set out in "*Management of the Guarantor*";
"**NPI**"	NPI Limited;
"**Observer**"	the representative appointed under the Lender Relationship Agreement to attend any meeting of the Board, or any committee thereof;
"**Official List**"	the Official List of the FCA;
"**On-Sold Resolution Assets**"	certain assets held by the Resolution Group transferred to Royal London;
"**Opal Re**"	Opal Reassurance Limited;
"**Ordinary Shares**"	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);
"**Original Pearl Business**"	LCA, LCB, PGH (TC1) Limited, PGH (TC2) Limited and Opal Re, together with their subsidiaries, being the five companies acquired by the Guarantor on 2 September 2009 or, at any date between 1 January 2007 and 2 September 2009, those companies identified as being the Original Pearl Business at the relevant time;
"**Original Pearl Life Companies**"	Phoenix Life Assurance (formerly called Pearl Assurance Limited), London Life, National Provident Life and NPI Limited
"**Part VII transfer**"	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**"	LCA and LCB;
"**Pearl Covenant Group**"	the Pearl Borrowers and their subsidiaries (but excluding Impala and its subsidiaries);
"**Pearl Facility**"	the credit facility made available pursuant to the Pearl Facility Agreement;
"**Pearl Facility Agent**"	RBS;
"**Pearl Facility Agreement**"	the facility agreement dated 15 November 2006 as amended and restated made between, among others, the Pearl Borrowers, the Pearl Lenders and the Pearl Facility Agent;
"**Pearl Group Staff Pension Scheme**"	the pension scheme covering the employees of the Group prior to the acquisition of the Resolution Group;

"**Pearl Group Sellers**"	the equity holders of LCA, LCB, TC1 and TC2 who are parties to the Pearl S PA (being Sun Capital, TDR Capital, Xercise Limited, Xercise Midco Limited, Jambright Limited and Jambright Midco Limited);
"**Pearl Lenders**"	the lenders under the Pearl Facility Agreement;
"**Pearl Senior Debt**"	the outstanding principal amount under the Pearl Facility Agreement;
"**Pensions Regulator**"	the UK Pensions Regulator as established under section 1 of the Pensions Act 2004;
"**PGH1**"	Pearl Group Holdings (No. 1) Limited (previously Resolution);
"**PGH2**"	Pearl Group Holdings (No. 2) Limited (previously Pearl Group Limited);
"**PGL Pension Scheme**"	the pension scheme covering the employees of PGH1 and its subsidiaries;
"**PGMS**"	Pearl Group Management Services Limited;
"**PGMS Ireland**"	Pearl Group Management Services (Ireland) Limited;
"**PGS**"	Pearl Group Services Limited;
"**Phoenix Life**"	the Group's life assurance (including its management services operations) business segment;
"**Phoenix Life Assurance**"	Phoenix Life Assurance Limited, which was renamed from Pearl Assurance Limited on 28 September 2012;
"**Phoenix Life Holdings**" or "**PLHL**"	Phoenix Life Holdings Limited;
"**Phoenix Pensions**"	Phoenix Pensions Limited;
"**Pillar 1**"	EU-directive-based Pillar 1 capital requirements;
"**Pillar 2**"	the FCA and PRA's Pillar 2 risk-based capital requirements that have been implemented in the UK;
"**PIK Documents**"	the PIK Facility and PIK Notes, collectively;
"**PIK Facility**"	the PIK facility agreement dated 10 October 2007 as amended and restated between MC2, MC1 and Royal London;
"**PIK Notes**"	the PIK notes issued to Royal London pursuant to the PIK Notes Instrument;
"**PIK Notes Instrument**"	a deed poll notes instrument dated 14 May 2008 as amended and restated executed by MC1 and MC2;
"**PLL**"	Phoenix Life Limited;
"**PPFM**"	Principles and Practices of Financial Management;
"**PRA**"	The Prudential Regulation Authority of the UK, its predecessors or its successors from time to time;
"**Premium Listing**"	the transfer of the Ordinary Shares to a premium listing under Chapter 6 of the Listing Rules which took place on 5 July 2010;

"**Price Adjustment Period**"	the period commencing on the date of Completion and ending on the day before the tenth anniversary of the date of Completion;
"**Proposed Refinancing**"	a proposed new unsecured facility which would be used to repay the Impala Facility, the Pearl Facility, the PIK Facility, the PIK Notes and the Lender Loan Notes in respect of which the Group is currently in discussions with a group of lenders;
"**Prospectus**"	this document;
"**Prospectus Directive**"	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended, including pursuant to the 2010 PD Amending Directive, and includes any relevant implementing measures in each Member State of the European Economic Area that has implemented Directive 2003/7 1/EC;
"**Prospectus Rules**"	the prospectus rules issued by the FCA;
"**Public Warrants**"	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**"	amounts payable by Impala to Standard Life Investments under the purchase price adjustment mechanism contained in the Divestment Agreement;
"**PVIF**"	present value of in-force;
"**RBS**"	The Royal Bank of Scotland plc;
"**Registrar**"	Citibank Global Markets Deutschland AG;
"**Regulation S**"	Regulation S under the Securities Act;
"**Regulatory Information Service**"	one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information in respect of listed companies;
"**relevant member state**"	each member state of the European Economic Area that has implemented the Prospectus Directive;
"**Remuneration Committee**"	the remuneration committee of the Board;
"**Resolution**"	Pearl Group Holdings (No. 1) Limited (formerly named Resolution plc);
"**Resolution Group**"	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**"	the acquisition by the Guarantor of the Acquired OPB Companies on 2 September 2009;
"**Royal London**"	The Royal London Mutual Insurance Society Limited;
"**Royal London Warrants**"	the warrants issued to Royal London on 2 September 2009;

"**Savings Directive**"	the EU Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments;
"**Scottish Mutual International**"	Scottish Mutual International Limited;
"**SCR**"	solvency capital requirement;
"**SDRT**"	stamp duty reserve tax;
"**Securities Act**"	the United States Securities Act of 1933, as amended;
"**Sellers**"	TDR Capital, Hugh Osmond, William Alan McIntosh, Edward Hawkes, Matthew Allen, Marc Jonas, O-Re Holdings (Netherlands) B.V. and O-Re Holdings UK Limited;
"**Shareholders**"	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, holders from time to time of Depositary Interest in respect of and representing on a one-for-one basis Ordinary Shares);
"**Standard Life Investments**"	Standard Life Investments (Holdings) Limited;
"**sterling**" or "**Sterling**" or "**£**" or "**pence**" or "**p**"	the lawful currency of the United Kingdom;
"**Sun Capital**"	the following principals of Sun Capital Partners: Hugh Osmond, Matthew Allen, Edward Hawkes and Marc Jonas or, where the context requires, certain vehicles or entities controlled by or associated with such persons;
"**Synergy Sharing Agreement**"	the agreement between Impala and Standard Life Investments, described in more detail in "*Information in relation to the Divestment of Ignis Asset Management Limited*" of this Prospectus;
"**TC1**"	PGH (TC1) Limited (previously Suncap Parma Topco Limited);
"**TC2**"	PGH (TC2) Limited (previously TDR Parma Topco Limited);
"**TCF**"	Treating Customers Fairly;
"**TDR Capital**"	TDR Capital Nominees Limited and its various related entities, or, as the context requires, various investment funds whose investments in the Group are managed by TDR Capital LLP;
"**Tier 1 Bonds**"	£500,000,000 6.5864 per cent. fixed/floating rate perpetual reset capital securities dated 15 November 2005 issued by PGH1;
"**Tier 2 Bonds**"	£200 million 7.25 per cent. undated unsecured subordinated notes issued by Scottish Mutual Assurance Limited and subsequently transferred to Phoenix Life Limited;
"**UK Corporate Governance Code**"	the UK Corporate Governance Code published by the Financial Reporting Council, as amended from time to time;
"**UKCPT**"	UK Commercial Property Trust;

"**UKLA**" or "**UK Listing Authority**"	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 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;
"**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;
"**Warrants**"	Public Warrants, Royal London Warrants and Lender Warrants; and
"**WPICC**"	with profit insurance capital component.

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