IMPORTANT: You must read the following disclaimer before continuing. This electronic transmission applies to the attached document and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached combined circular and prospectus relating to Phoenix Group Holdings (the "**Company**") accessed from this page or by electronic communication or otherwise received as a result of such access or electronic communication. You are advised to read this disclaimer carefully before reading, accessing or making any other use of the attached document. In accessing the attached document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and intended for you only and you agree you will not forward, reproduce or publish this electronic transmission or the attached document to any other person.

SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES UNLESS THEY ARE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ARE EXEMPT FROM SUCH REGISTRATION. THE NEW ORDINARY SHARES AND THE NEW DEPOSITARY INTERESTS DESCRIBED IN THE ATTACHED DOCUMENT (THE "**NEW SHARES**" AND THE "**NEW DEPOSITARY INTERESTS**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR UNDER ANY SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NEW SHARES AND THE NEW DEPOSITARY INTERESTS MAY NOT BE OFFERED, SOLD, TAKEN UP, EXERCISED, RESOLD, TRANSFERRED OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR THE UNITED STATES EXCEPT UNDER CERTAIN CIRCUMSTANCES.

SUBJECT TO CERTAIN EXCEPTIONS, THIS ELECTRONIC TRANSMISSION AND THE ATTACHED DOCUMENT DO NOT CONSTITUTE, NOR WILL CONSTITUTE, NOR FORM PART OF ANY OFFER OR INVITATION TO SELL OR ISSUE, OR ANY SOLICITATION OF ANY OFFER TO PURCHASE OR ACQUIRE, THE NEW SHARES OR THE NEW DEPOSITARY INTERESTS, TO ANY SHAREHOLDER WITH A REGISTERED ADDRESS IN, OR WHO IS RESIDENT OR LOCATED IN (AS APPLICABLE), AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR THE UNITED STATES. THE NEW SHARES AND THE NEW DEPOSITARY INTERESTS OFFERED OUTSIDE THE UNITED STATES ARE BEING OFFERED IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. ANY PERSON IN AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR THE UNITED STATES WHO OBTAINS A COPY OF THE ATTACHED DOCUMENT IS REQUIRED TO DISREGARD IT.

In relation to each member state of the European Economic Area (except the United Kingdom), no offer of New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights may be made pursuant to the offering described in the attached document to the public in that member state, except an offer of New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights to the public in that member state: (i) to legal entities which are qualified investors as defined in the Prospectus Directive; (ii) to fewer than 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive) as permitted under the Prospectus Directive; and (iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that such offer of New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights shall not require the Company or any of the Banks to publish a prospectus in that member state pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For this purpose, the expression an "offer to the public" in relation to any New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights in any member state means the communication in any form and by any means of sufficient information on the terms of the offer and any New Shares to be offered so as to enable an investor to decide to purchase or subscribe any New Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including by Directive 2010/73/EU), and includes any relevant implementing measure in the member state.

Confirmation of Your Representation: This electronic transmission and the attached document is delivered to you on the basis that you are deemed to have represented to the Company and HSBC Bank plc, Merrill Lynch International, J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove) and BNP PARIBAS (together, the "**Banks**") that (i) you are not a resident or located in Australia, Canada, Japan, South Africa or the United States, or acquiring such securities in "offshore transactions", as defined in, and in reliance on, Regulation S under the Securities Act; or (ii) if you are in any member state of the European Economic Area

(other than the United Kingdom) you are a "qualified investor", and in each case, you consent to the delivery of this document by electronic transmission.

You are reminded that you have received this electronic transmission and the attached document on the basis that you are a person into whose possession this document 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 document, electronically or otherwise, to any other person. This document has been made available 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 neither the Company, the Banks nor any of their respective affiliates 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. By accessing the linked document, you consent to receiving it in electronic form. None of the Banks 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 it, or on its behalf, in connection with the Company, the New Shares or the New Depositary Interests. The Banks and each of their respective affiliates, each accordingly disclaims 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 Banks or any of their respective affiliates as to the accuracy, completeness or sufficiency of the information set out in this document.

The Banks are acting exclusively for the Company and no one else in connection with the offering described in the attached document. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offering described in the attached document and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for giving advice in relation to the offering described in the attached document or any transaction or arrangement referred to herein.

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000, as amended ("FSMA") if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.

This document comprises (i) a circular prepared in accordance with the Listing Rules of the Financial Conduct Authority (the "**FCA**") made under section 73A of FSMA and (ii) a prospectus relating to Phoenix Group Holdings ("**Phoenix**" or the "**Company**" and, together with its consolidated subsidiaries from time to time, the "**Group**") prepared in accordance with the Prospectus Rules of the FCA made under section 73A of FSMA. This document has been approved by the FCA in accordance with section 87A of FSMA, will be made available to the public and has been filed with the FCA in accordance with the Prospectus Rules. This document together with the documents incorporated into it by reference (as set out in Part XVI ("*Documents Incorporated by Reference*") of this document) will be made available to the public in accordance with Prospectus Rule 3.2.1 by the same being made available, free of charge, at www.thephoenixgroup.com and at the Company's principal place of business is at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom.

If you sell or have sold or have otherwise transferred all of your Existing Shares (other than ex-rights) held in certificated form before 8.00 a.m. on 26 June 2018 (the "**Ex-Rights Date**"), please send this document, together with any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the Restricted Territories or the Excluded Territories. If you sell or have sold or otherwise transferred only part of your holding of Existing Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part III ("*Terms and Conditions of the Rights Issue*") of this document and in the Provisional Allotment Letter. If you sell or transfer or have sold or otherwise transferred all or some of your Depositary Interests (other than ex-rights) before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear, which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

The distribution of this document, the Provisional Allotment Letter and the transfer of Nil Paid Rights, Fully Paid Rights, New Shares and New Depositary Interests into jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this document, the enclosures and the Provisional Allotment Letter and any other such documents should not be distributed, forwarded to or transmitted into the Restricted Territories or the Excluded Territories.

PHOENIX GROUP

Phoenix Group Holdings

(a company incorporated as an exempted company with limited liability under the laws of the Cayman Islands with registered number 202172)

Proposed acquisition of Standard Life Assurance

7 for 15 Rights Issue of 183,522,385 New Shares at 518 pence per New Share

Re-admission of up to 733 million Shares to the premium listing segment of the Official List and to trading on the LSE's main market for listed securities

Notice of General Meeting

Joint Global Coordinators

BofA Merrill Lynch **HSBC** **J.P. Morgan Cazenove**

Joint Bookrunners

BofA Merrill Lynch **BNP PARIBAS** **HSBC** **J.P. Morgan Cazenove**

Sponsor

HSBC

Phoenix and the Directors, whose names appear on page 62 of this document in the section headed "*Directors, Company Secretary and Advisers*", accept responsibility for the information contained in this document. To the best of the knowledge of Phoenix and the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

A Notice of General Meeting of the Company, to be held at Grange St. Paul's Hotel, 10 Godliman Street, London EC4V 5AJ at 11.00 a.m. on 25 June 2018, is set out at the end of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar, Computershare Investor Services (Cayman) Limited c/o Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by not later than 11.00 a.m. on 22 June 2018 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

The Existing Shares are listed on the Official List maintained by the FCA (the "**Official List**") and traded on the London Stock Exchange plc's (the "**LSE**") main market for listed securities. Application will be made to the FCA in its capacity as competent authority under FSMA (the "**UKLA**") and to the LSE for the New Shares to be admitted to the Official List of the UKLA and to trading on the main market for listed securities of the LSE, respectively (together, the "**Admission**"). It is expected that Admission will become effective and that dealings on the LSE in the New Shares (nil paid) will commence at 8.00 a.m. on 26 June 2018.

As the Acquisition (as defined below) constitutes a reverse takeover under the Listing Rules, admission of the Existing Shares in issue immediately prior to the closing of the Acquisition pursuant to the Share Purchase Agreement ("**Completion**") to the premium listing segment of the Official List and to trading on the LSE's main market for listed securities will be cancelled upon Completion. Further applications will be made to the UKLA and the LSE, respectively, for the Shares, including the New Shares to be issued pursuant to the Rights Issue and the up to 144,106,049 new Shares to be allotted and issued by the Company to Standard Life Aberdeen as part consideration pursuant to the Acquisition (the "**Acquisition Shares**"), to be re-admitted to the premium listing segment of the Official List of the UKLA and to trading on the LSE's main market for listed securities (together, the "**Re-admission**"). It is currently expected that Re-admission will become effective following Completion and that dealings in the Shares will commence at 8.00 a.m. on the date of Completion (and, in any event, prior to 31 December 2018), whereupon an announcement will be made by the Company to a Regulatory Information Service.

Your attention is drawn to the letter of recommendation from the Chairman which is set out in Part I ("*Letter from the Chairman of Phoenix Group Holdings*") on pages 64 to 80 of this document. You should read the entire document but your attention is also drawn to the section of this document headed "Risk Factors" which sets out certain risks and other factors that should be considered by Shareholders when deciding on what action to take in relation to the Rights Issue, and by others when deciding whether or not to purchase Nil Paid Rights, Fully Paid Rights, New Shares or New Depositary Interests.

The Nil Paid Rights, the Fully Paid Rights, the New Shares, the New Depositary Interests and the Provisional Allotment Letters have not been and will not be registered under the US Securities Act of 1933, as amended (the "**US Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from or in a transaction not subject to the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights, the New Shares or the New Depositary Interests in the United States.

The Nil Paid Rights, the Fully Paid Rights, the New Shares, the New Depositary Interests and the Provisional Allotment Letters will not be registered under the securities laws of any Excluded Territory or Restricted Territory and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within such jurisdictions except pursuant to an applicable exemption from, and in compliance with, any applicable securities laws. There will be no public offer in any of the Excluded Territories or the Restricted Territories.

HSBC Bank plc ("**HSBC**" and the "**Sponsor**"), Merrill Lynch International ("**BofA Merrill Lynch**"), J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan

Cazenove) ("**JPM**") and BNP PARIBAS ("**BNPP**" and, together with HSBC, BofA Merrill Lynch and JPM, the "**Banks**"), each of which is authorised by the Prudential Regulatory Authority (the "**PRA**") and regulated in the United Kingdom by the PRA and the FCA, are each acting exclusively for the Company and no one else in connection with the arrangements described in this document and will not regard any other person (whether or not a recipient of this document) as a client in relation to the arrangements described in this document and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the arrangements referred to in this document.

None of the Banks nor any of their respective affiliates accepts any responsibility whatsoever or makes any representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Nil Paid Rights, the Fully Paid Rights, the New Shares or the New Depositary Interests, or the arrangements described in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. Each of the Banks and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this document or any such statement.

Subject to the passing of the Resolutions, it is expected that Qualifying Non-CREST Shareholders other than, subject to certain exceptions, those with registered addresses in the Excluded Territories or the Restricted Territories will be sent a Provisional Allotment Letter on 25 June 2018, and that Qualifying Depositary Interest Holders will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 26 June 2018. The Nil Paid Rights so credited are expected to be enabled for settlement by Euroclear as soon as practicable after Admission.

Qualifying Depositary Interest Holders should note that they will receive no further written communication from the Company in respect of the Rights Issue. They should accordingly retain this document for, amongst other things, details of the action they should take in respect of the Rights Issue.

Qualifying Depositary Interest Holders who are CREST-sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue. Holdings of Shares in certificated and uncertificated form as Depositary Interests will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

The Banks and their respective affiliates may, in accordance with applicable legal and regulatory provisions and subject to the Sponsor and Underwriting Agreement (as defined below), engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Shares, the Depositary Interests and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Except as required by applicable law or regulation, the Banks and their respective affiliates do not propose to make any public disclosure in relation to such transactions.

The latest time and date for acceptance and payment in full for the New Shares or New Depositary Interests by holders of the Nil Paid Rights is expected to be 11.00 a.m. on 9 July 2018. The procedures for delivery of the Nil Paid Rights, acceptance and payment are set out in Part III ("*Terms and Conditions of the Rights Issue*") of this document and, for Qualifying Non-CREST Shareholders other than, subject to certain exceptions, those with registered addresses in the Restricted Territories or the Excluded Territories only, also in the Provisional Allotment Letter. Qualifying Depositary Interest Holders other than, subject to certain exceptions, those with registered addresses in the Restricted Territories or the Excluded Territories should refer to paragraph 2.2 ("*Action to be taken by Qualifying Depositary Interest Holders in relation to Nil Paid Rights and Fully Paid Rights in CREST*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

The Nil Paid Rights, the Fully Paid Rights, the New Shares, the New Depositary Interests and the Provisional Allotment Letters have not been approved or disapproved by the US Securities and Exchange Commission, any state's securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Nil Paid Rights, the Fully Paid Rights, the New Shares or New Depositary Interests or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.

This document does not constitute an offer of Nil Paid Rights, Fully Paid Rights, New Shares or New Depositary Interests to any person with a registered address, or who is located, in the Restricted Territories or the Excluded Territories or in any other jurisdiction in which such an offer or solicitation is unlawful.

The Nil Paid Rights, the Fully Paid Rights, the New Shares, the New Depositary Interests and the Provisional Allotment Letters have not been and will not be registered under the relevant laws of any state, province or territory of the Restricted Territories or any Excluded Territory and, subject to certain limited exceptions, may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within any Restricted Territory or any Excluded Territory except pursuant to an applicable exemption under relevant securities laws.

None of the New Shares, the New Depositary Interests, the Nil Paid Rights and the Fully Paid Rights has been or will be registered under the US Securities Act, or under the applicable securities laws of any state or other jurisdiction of the United States. The New Shares, the New Depositary Interests, the Nil Paid Rights and the Fully Paid Rights offered outside the United States are being offered in reliance on Regulation S under the US Securities Act solely to non-US persons.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters, the New Shares or the New Depositary Interests within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the US Securities Act.

All Overseas Shareholders and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter, if and when received, or other document to a jurisdiction outside the UK should read the information set out in paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

Notice to all investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the Nil Paid Rights, the Fully Paid Rights, the New Shares or the New Depositary Interests is prohibited.

By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights, the New Shares and/or the New Depositary Interests agrees to the foregoing.

The distribution of this document and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights, the New Shares and/or the New Depositary Interests into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted in or into the Restricted Territories or the Excluded Territories. The Nil Paid Rights, the Fully Paid Rights, the New Shares, the New Depositary Interests and the Provisional Allotment Letters are not transferable, except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document. No action has been taken by the Company or by the Banks that would permit an offer of the New Shares or the New Depositary Interests or rights thereto or possession or distribution of this document or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the UK.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by the Banks. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this document or that the information in this document is correct as at any time subsequent to its date.

Prospective investors acknowledge that they have not relied on the Banks or any person affiliated with the Banks in connection with any investigation of the accuracy of any information contained in this document or their investment decision. In making an investment decision, each prospective

investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved.

None of the Company or the Banks, or any of their respective representatives, makes any representation to any offeree of the Nil Paid Rights, the Fully Paid Rights, the New Shares and/or the New Depositary Interests under the laws applicable to such offeree. Each prospective investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of Shares and/or Depositary Interests.

The contents of the websites of the Group and Standard Life Aberdeen do not form part of this document.

Capitalised terms used in this document have the meanings ascribed to them, and certain technical terms are explained, in Part XVII (''*Definitions*'') of this document.

MiFID II Product Governance and Information to Distributors

Solely for the purposes of the product governance requirements contained within: (i) EU Directive 2014/65/EU on markets in financial instruments, as amended (''**MiFID II**''); (ii) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (iii) local implementing measures (together, the ''**MiFID II Product Governance Requirements**''), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any ''manufacturer'' (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Nil Paid Rights, the Fully Paid Rights and the New Shares and/or the New Depositary Interests have been subject to a product approval process, which has determined that they each are: (a) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (b) eligible for distribution through all distribution channels as are permitted by MiFID II (the ''**Target Market Assessment**'').

Notwithstanding the Target Market Assessment, distributors (as defined in MiFID II) should note that: (i) the price of the Nil Paid Rights, the Fully Paid Rights the New Shares and/or the New Depositary Interests may decline and investors could lose all or part of their investment; (ii) the Nil Paid Rights, the Fully Paid Rights the New Shares and/or the New Depositary Interests offer no guaranteed income and no capital protection; and (iii) an investment in the Nil Paid Rights, the Fully Paid Rights the New Shares and/or the New Depositary Interests is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Rights Issue. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Banks will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (i) an assessment of suitability or appropriateness for the purposes of MiFID II; or (ii) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Nil Paid Rights, the Fully Paid Rights the New Shares and/or the New Depositary Interests.

Each distributor is responsible for undertaking its own target market assessment in respect of the Nil Paid Rights, the Fully Paid Rights the New Shares and/or the New Depositary Interests and determining appropriate distribution channels.

WHERE TO FIND HELP

Part II (''*Some Questions and Answers about the Rights Issue*'') of this document answers some of the questions most often asked by shareholders about rights issues. If you have further questions, please telephone the Shareholder Helpline on the numbers set out below. This helpline is available from 9.00 a.m. to 5.00 p.m. on any day (other than a Saturday or Sunday) on which banks are open for general business in London (a ''**Business Day**'').

Shareholder Helpline

0370 707 4040 (from within the United Kingdom)

or

+44 (0)370 707 4040 (from outside the United Kingdom)

Calls may be recorded and monitored randomly for security and training purposes. Please note that, for legal reasons, the Shareholder Helpline will only be able to provide information contained in this document and information relating to your shareholding and will be unable to give advice on the merits of the Rights Issue or to provide legal, financial, tax or investment advice.

The date of this document is 30 May 2018.

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SUMMARY

Summaries are made up of disclosure requirements known as ''Elements''. These Elements are numbered in Sections A-E (A.1-E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ''not applicable''.

SECTION A – INTRODUCTION AND WARNINGS		
Element	**Disclosure Requirement**	**Disclosure**
A.1	**Warning to investors**	This summary should be read as an introduction to this document. Any decision to invest in the new ordinary shares with a nominal value of €0.0001 each in the share capital of the Company (''**New Shares**'') and/or the new depositary interests related to them (''**New Depositary Interests**'') in nil paid form (''**Nil Paid Rights**''), and/or rights to acquire the New Shares and/or the New Depositary Interests fully paid (''**Fully Paid Rights**'') and/or New Shares and/or New Depositary Interests pursuant to the rights issue on the terms and conditions set out in this document (the ''**Rights Issue**'') should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area (the ''**EEA**''), have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in the Nil Paid Rights and/or Fully Paid Rights and/or New Share and/or New Depositary Interests.
A.2	**Subsequent resale or final placement of securities by financial intermediaries**	Not applicable. No consent has been given by the Company or any person responsible for drawing up this document to use this document for subsequent sale or placement of securities by financial intermediaries.

SECTION B – ISSUER		
Element	**Disclosure Requirement**	**Disclosure**
B.1	**Legal and commercial name**	Phoenix Group Holdings (''**Phoenix**'' or the ''**Company**'').
B.2	**Domicile, legal form, legislation and country of incorporation**	Phoenix, 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.

		Phoenix's registered office is at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU, United Kingdom. The principal legislation under which Phoenix operates is the Companies Law (as amended) of the Cayman Islands ("**Companies Law**") and the New Shares are issued pursuant to the terms of the seventh amended and restated memorandum and articles of association of the Company (the "**Articles**") and the Companies Law.
B.3	**Current operations, principal activities and principal markets**	The Group specialises in the management and acquisition of closed life and pension funds and operates primarily in the UK. As at 31 December 2017, the Group had more than 5.6 million policyholders, £74 billion of assets under management and Solvency II Own Funds of £6.6 billion. Measured by number of policyholders, the Group is the UK's largest specialist consolidator of closed life insurance funds. The Group is primarily focused on the efficient management of in-force policies and currently writes limited new policies (as increments to existing policies, annuities for current policyholders when their policies mature and a limited set of direct protection policies). On 23 February 2018, Phoenix Group Holdings (the "**Company**" and, together with its subsidiaries from time to time, the "**Group**") announced the proposed acquisition of Standard Life Assurance Limited ("**SLAL**") (to include Vebnet (Holdings) Limited and exclude certain subsidiaries of SLAL following a pre-Completion restructuring) ("**Standard Life Assurance**") from Standard Life Aberdeen plc ("**Standard Life Aberdeen**") (the "**Acquisition**"), in consideration for which Standard Life Aberdeen will take an approximately 19.99 per cent. stake in the enlarged Group following Completion (the "**Enlarged Group**") and Phoenix will pay a total cash consideration of £1,971 million upon the closing of the Acquisition pursuant to the Share Purchase Agreement ("**Completion**") (excluding a dividend of £312 million paid by SLAL to Standard Life Aberdeen prior to Completion), subject to certain customary adjustments. Standard Life Assurance will include Standard Life Aberdeen's UK and European life insurance business but will not include Standard Life Aberdeen's UK retail platforms and advice business. Standard Life Assurance is a leading provider of long-term savings and investment propositions. It is primarily based in the UK, with further operations through branches in Ireland and Germany. As at 31 December 2017, Standard Life Assurance had approximately 4.8 million policyholders and £166 billion of assets under administration ("**AUA**").
B.4a	**Significant recent trends affecting the Group and the industries in which it operates**	Significant recent trends that have affected the Group include: • the impact of the acquisitions and subsequent integration by the Company of: (i) Abbey Life Assurance Company Limited ("**ALAC**"), Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited (together, "**Abbey Life**"); and (ii) AXA Wealth Limited's pensions and protections business (the "**SunLife Embassy Business**"); • increasing strategic activity amongst traditional UK life insurers, including in relation to M&A and changes to business mix; • the performance of financial markets, in particular swap, gilt and bond yields; • the impact of the prevailing low interest rate environment and changing demographics on the Group's expectations of persistency for certain products, including those with guarantees; • the implementation of the Solvency II regulatory regime and other changes to the UK's regulatory environment; and

		• changes to mortality and longevity rates and assumptions. Going forward, the Company expects the UK life insurance and pensions industry to be impacted principally by the following factors: • *Pensions reform*: The requirement to spend pensions savings on an annuity has been removed. The ease with which customers can switch providers has also increased, reducing customer retention. • *Interest rates*: Changes in interest rates, such as the decision by the Bank of England to increase interest rates from 0.25 per cent. to 0.50 per cent. on 2 November 2017, will impact investment returns and the capital position for UK life insurance companies. • *Brexit*: Following the outcome of the referendum on the UK's membership of the European Union, uncertainty over the UK's continued access to the single market and 'passporting' rights for UK firms across the EEA, and potential related regulatory change, will impact the UK life insurance industry. • *Closed book consolidation*: Existing and anticipated market dynamics, including the impact of Solvency II, shifting strategic agendas for traditional open-book life insurers, and further regulatory pressures are expected to generate a supply of potentially attractive acquisition targets.
B.5	**Description of the Group and the Enlarged Group structure**	The Company is the ultimate parent company of the Group. The Group has three operating life insurance companies which hold policyholder assets: Phoenix Life Limited ("**PLL**"), Phoenix Life Assurance Limited ("**PLAL**") and ALAC (together, the "**Phoenix 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 Phoenix Life Companies (or manage the provision of such services through outsourcing arrangements), including policy administration, information technology, finance and facility management services. Following Completion, the Company will be the ultimate holding company of the Enlarged Group. Although delayed from the original proposed date as a result of the Acquisition, Phoenix's ongoing onshoring process, including putting in place a new UK-registered holding company for the Group, is expected to occur as soon as is practicable following Completion.
B.6	**Major shareholders**	Information provided to the Company, pursuant to the Disclosure Guidance and Transparency Rules regarding its substantial Shareholders is published on a Regulatory Information Service and on the Company's website. As at 29 May 2018 (the "**Latest Practicable Date**"), insofar as the Company has been notified: (i) the following persons are interested, directly or indirectly, in 3 per cent. or more (or 5 per cent. or more in the case of investment managers) of the Company's issued share capital; (ii) immediately following completion of the Rights Issue, the following persons will be interested, directly or indirectly, in 3 per cent. or more or 5 per cent. or more in the case of investment managers of the Company's issued share capital based on prior notifications (assuming the issuance of 183,522,385 New Shares, full take-up by such persons of their entitlements under the Rights Issue and that no additional shares are issued by the Company or options granted under the Group's Long-Term Incentive Plan, Sharesave Plan, Share Incentive Plan and Deferred Bonus Share Scheme (together, the "**Employee Share Schemes**") are exercised between the Latest Practicable Date and completion of the Rights Issue); and (iii) immediately following Completion, the following persons will be interested, directly or indirectly, in 3 per cent. or more (or 5 per cent. or more in the case of investment managers) of the Company's issued share capital based on prior

notifications (assuming the issuance of 144,106,049 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion).

	As at the Latest Practicable Date		Immediately following completion of the Rights Issue	
Name	**Number of voting rights**	**Percentage of issued share capital[(1)]**	**Number of voting rights**	**Percentage of Enlarged Share Capital[(1)]**
Standard Life Aberdeen plc[(2)]	31,443,586	7.99%	46,117,259	8.00%
Prudential plc group of companies	20,632,741	5.24%	30,261,353	5.25%
BlackRock, Inc.	20,268,506	5.15%	29,727,142	5.15%
Ameriprise Financial Inc. and its group	20,065,999	5.10%	29,430,132	5.10%
Aviva plc & its subsidiaries	19,863,516	5.05%	29,133,157	5.05%

	Immediately following Completion	
Name	**Number of voting rights**	**Percentage of Enlarged Share Capital[(1)]**
Standard Life Aberdeen plc[(3)]	190,223,308	26.39%
Prudential plc group of companies	30,261,353	4.20%
BlackRock, Inc.	29,727,142	4.12%
Ameriprise Financial Inc. and its group	29,430,132	4.08%
Aviva plc & its subsidiaries	29,133,157	4.04%

Notes:

(1) There exist 5 million outstanding redeemable Lender Warrants in the Company. Each Lender Warrant is exercisable into 1.027873 Shares of the Company at a warrant price of £14.59 per share. If they are exercised, the Company will be required to issue up to 5,139,365 additional Shares.

(2) Comprising Shares held by Standard Life Aberdeen: (i) for investment purposes in the ordinary course of business in the context of managing investments (as defined in the FCA Handbook) for, or advising, clients; and (ii) as bare nominee, custodian or trustee on behalf of a customer.

(3) Comprising the Acquisition Shares and Shares held by Standard Life Aberdeen: (i) for investment purposes in the ordinary course of business in the context of managing investments (as defined in the FCA Handbook) for, or advising, clients; and (ii) as bare nominee, custodian or trustee on behalf of a customer.

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly, nor is it aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

None of the major holders of Shares ("**Shareholders**") referred to above has different voting rights from other Shareholders.

B.7	Selected historical key financial information

Selected historical key financial information of Phoenix

The tables below set out the Company's summary selected consolidated financial information as at and for the years ended 31 December 2017, 2016 and 2015. The data has been extracted without material adjustment from the Company's historical financial statements for the years ended 31 December 2017, 2016 and 2015.

Summary selected statement of consolidated income

	Year ended 31 December		
	2017	**2016**	**2015**
	(£ million) (audited)		
Net income	6,089	7,445	692
Total operating expenses	(5,964)	(7,393)	(404)
Finance costs	(132)	(122)	(136)
(Loss)/profit for the year before tax	**(7)**	**(70)**	**152**
Tax attributable to policyholders' returns	(21)	(58)	33
Tax credit/(charge) attributable to owners	1	28	64
Tax (charge)/credit	(20)	(30)	97
(Loss)/profit for the year attributable to owners	**(27)**	**(100)**	**249**
Attributable to:			
Owners of the parent	(27)	(101)	201
Non-controlling interests	—	1	48
	(27)	(100)	249

Summary selected consolidated statement of financial position

	As at 31 December		
	2017	**2016**	**2015**
	(£ million) (audited)		
Total assets	83,443	85,999	64,514
Total liabilities	80,288	82,666	61,510
Equity attributable to owners of the parent	3,155	3,333	2,434
Non-controlling interests	—	—	570
Total equity	**3,155**	**3,333**	**3,004**

Except for the issuance of the £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes issued on 26 April 2018, there has been no significant change to the Company's financial condition and operating results in the period since 31 December 2017 to the date of publication of this document.

A summary of the significant factors impacting the Company's financial condition and operating results during the years ended 31 December 2017, 2016 and 2015 is set out below.

The Group's IFRS loss after tax for the year ended 31 December 2017 was £27 million (2016: loss after tax of £100 million). The increase of £73 million from the prior year reflects: (i) the twelve-month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016; and (ii) lower adverse impacts of economic factors in light of stability in yields during the period (compared with significant falls in yields in 2016). The adverse impact of the further strengthening of persistency assumptions in a continued low interest rate

environment and associated later retirements was offset by positive longevity and expense assumption changes. The Group issued £450 million Tier 3 subordinated notes due 2022 and US$500 million Tier 2 bonds due 2027, the proceeds from which were used to repay drawn-down amounts under the Revolving Credit Agreement and repurchase £178 million of the Senior Bonds.

The Group's loss after tax for the year ended 31 December 2016 was £100 million (2015: profit after tax of £249 million). The reduction of £349 million from the prior year reflects the recognition of a provision to reflect the impact of a continued low interest rate environment on the Group's expectations of persistency for products with guarantees of £64 million, and the adverse impacts of economic factors including falling yields, widening credit spreads and losses on equity hedging positions (compared with positive investment variances driven by rising yields and increased property returns in 2015). The Group undertook an equity placing of £190 million (net of deduction of commissions and expenses) and a bridge facility agreement of £220 million in connection with the completion of the AXA Transaction; and (iii) a right issue of £735 million in connection with the completion of the Abbey Life Acquisition.

The Group's profit after tax for the year ended 31 December 2015 was £249 million. The reduction of £157 million from the prior year reflects lower positive impacts of actuarial modelling enhancements and balance sheet reviews, together with the recognition in 2014 of a gain on disposal of the Group's interest in Ignis Asset Management of £110 million and a gain of £68 million arising on the restructuring of the Group's exposure to longevity risk in the PGL Pension Scheme. These factors were partly offset by the recognition of a gain of £49 million (net of a £64 million impairment of associated acquired value of in-force business) in 2015 arising on the external reinsurance of a portfolio of annuity liabilities with RGA International.

Selected historical key financial information of Standard Life Assurance

The tables below set out Standard Life Assurance's summary selected combined financial information as at and for the years ended 31 December 2017, 2016 and 2015. The data has been extracted without material adjustment from Standard Life Assurance's combine historical financial information as at and for the years ended 31 December 2017, 2016 and 2015.

Summary selected statement of combined income

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Total net revenue	15,516	18,054	7,869
Total expenses	14,965	17,544	7,540
Profit before tax	**551**	**510**	**329**
Total tax expense	207	271	120
Profit for the year	**344**	**239**	**209**

Summary selected combined statement of financial position

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Total assets	**183,388**	**181,575**	**169,941**
Total net investment	3,120	3,027	2,899
Total liabilities	180,268	178,548	167,042
Total equity and liabilities	**183,388**	**181,575**	**169,941**

		There has been no significant change to Standard Life Assurance's financial condition and operating results in the period since 31 December 2017 to the date of publication of this document. A summary of the significant factors impacting Standard Life Assurance's financial condition and operating results during the years ended 31 December 2017, 2016 and 2015 is set out below. Standard Life Assurance's profit after tax for the year ended 31 December 2017 was £344 million (2016: £239 million). The increase of £105 million from the prior year reflects the impact of net outflows in Standard Life Assurance's older books of business, offset by a reduction in investment return and the associated effect on third party interest in the consolidated investment funds. Standard Life Assurance's profit after tax for the year ended 31 December 2016 was £239 million (2015: £209 million). The increase of £30 million from the prior year reflects the increase in investment return from positive equity performance and reduced yields generating gains on debt securities, offset by increases in liabilities as a result of these factors.
B.8	**Selected key pro forma financial information**	***Unaudited Pro Forma IFRS Financial Information*** The unaudited pro forma IFRS income statement and unaudited pro forma statement of IFRS net assets of the Enlarged Group (together, the "**Unaudited Pro Forma IFRS Financial Information**") set out below have been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The unaudited pro forma IFRS income statement has been prepared to illustrate the effect on the earnings of the Company as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments had taken place on 1 January 2017. The unaudited pro forma statement of IFRS net assets has been prepared to illustrate the effect on the net assets of the Company as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments had taken place on 31 December 2017. The Unaudited Pro Forma IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company's or the Enlarged Group's actual financial position or results. The Unaudited Pro Forma IFRS Financial Information is stated on the basis of the accounting policies adopted by the Company in preparing its consolidated financial statements for the year ended 31 December 2017.

Unaudited pro forma statement of consolidated IFRS income for the Enlarged Group for the year ended 31 December 2017

		Pro forma adjustments for the Group					
	Phoenix Note 1	Standard Life Assurance Note 2	Adjustments to conform disclosures Note 3	Pre-Completion adjustments Note 4	Financing adjustments Note 5	Acquisition adjustments Note 6	Pro forma total
				(£ million)			
Gross premiums written	1,130	2,099	—	—	—	—	3,229
Less premiums ceded to reinsurers	(205)	(45)	—	—	—	—	(250)
Net premiums written	**925**	**2,054**	**—**	**—**	**—**	**—**	**2,979**
Fees	173	633	—	—	—	(51)	755
Net investment income	4,986	12,801	—	—	—	—	17,787
Total revenue, net of reinsurance payables	**6,084**	**15,488**	**—**	**—**	**—**	**(51)**	**21,521**
Other operating income	5	28	—	8	—	—	41
Net income	**6,089**	**15,516**	**—**	**8**	**—**	**(51)**	**21,562**
Policyholder claims	(3,897)	(4,397)	—	—	—	—	(8,294)
Less: reinsurance recoveries	443	480	—	—	—	—	923
Change in insurance contract liabilities	1,392	1,392	—	—	—	—	2,784
Change in reinsurers' share of insurance and contract liabilities	(423)	(567)	—	—	—	—	(990)
Transfer to unallocated surplus	(46)	(61)	—	—	—	—	(107)
Net policyholder claims and benefits incurred	**(2,531)**	**(3,153)**	**—**	**—**	—	—	**(5,684)**
Change in investment contract liabilities	(2,673)	(8,873)	—	—	—	—	(11,546)
Acquisition costs	(6)	—	—	—	—	—	(6)
Change in present value of future profits	5	—	—	—	—	—	5
Amortisation of acquired in-force business	(109)	—	—	—	—	(201)	(310)
Amortisation and impairment of other intangibles	(17)	—	(46)	—	—	—	(63)
Administrative expenses	(590)	(1,075)	46	2	—	37	(1,580)
Provision for annuity sales practices	—	(100)	—	—	—	—	(100)
Expenses under arrangements with reinsurers	—	(202)	21	—	—	—	(181)
Net income attributable to unitholders	(43)	(1,537)	—	—	—	—	(1,580)
Total operating expenses	**(5,964)**	**(14,940)**	**21**	**2**	**—**	**(164)**	**(21,045)**
Profit before finance costs and tax	**125**	**576**	**21**	**10**	**—**	**(215)**	**517**
Finance costs	(132)	(25)	(21)	20	(15)	—	(173)
(Loss)/profit before tax	**(7)**	**551**	**—**	**30**	**(15)**	**(215)**	**344**
Tax charge attributable to policyholders' returns	(21)	(159)	—	—	—	—	(180)
(Loss)/profit before tax attributable to owners	**(28)**	**392**	**—**	**30**	**(15)**	**(215)**	**164**
Tax credit/(charge)	(20)	(207)	—	(11)	3	29	(206)
Add: tax attributable to policyholders' returns	21	159	—	—	—	—	180
Tax credit/(charge) attributable to owners	**1**	**(48)**	**—**	**(11)**	**3**	**29**	**(26)**
(Loss)/profit for the year attributable to owners	**(27)**	**344**	**—**	**19**	**(12)**	**(186)**	**138**
Attributable to:							
Owners of the parent	(27)	286	—	53	(35)	(186)	91
Non-controlling interests – Subordinated notes	—	34	—	(34)	23	—	23
Non-controlling interests – Other	—	24	—	—	—	—	24

Notes:

Note 1—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note 2—The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in Part IX ("*Financial Information of Standard Life Assurance*") of this document.

Note 3—This column reflects adjustments to align the presentation of the income statement of Standard Life Assurance to that of Phoenix as follows:

(a) Phoenix discloses the amortisation and impairment of intangible assets separately in the income statement, whereas Standard Life Assurance discloses such amounts within "Administrative expenses". Accordingly a reclassification of £46 million has been made between "Administrative expenses" and "Amortisation and impairment of other intangibles".

(b) Standard Life Assurance recognises interest payable on deposits from reinsurers within "Expenses under arrangements with reinsurers". Phoenix recognises such amounts in "Finance costs". A reclassification of £21 million has been made in this regard.

Note 4—This column represents the following adjustments:

(a) As described in note 4(a) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, under the Share Purchase Agreement, Standard Life Assurance will repay the £300 million Mutual Assurance Capital Securities and £500 million subordinated guaranteed bonds (non-shareholders equity) prior to Completion. An adjustment of £20 million has been made to "Finance costs" to reflect that the Enlarged Group will no longer incur finance charges associated with the Mutual Assurance Capital Securities. A £4 million charge has been recognised in "Tax attributable to owners", representing the reversal of the tax credit received on those costs. An adjustment of £34 million (net of tax) has been made to "Profit for the year attributable to Non-controlling interests – Subordinated notes", reflecting that no charge to equity will be required in respect of interest costs on these instruments.

(b) As described in note 4(b) to the unaudited pro forma statement of IFRS net assets for the Enlarged Group, under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, an adjustment of £26 million to "Administrative expenses" has been made to reverse the IAS 19 pension accounting amounts credited to the income statement of Standard Life Assurance in respect of these non-transferring defined benefit pension schemes.

(c) An adjustment of £28 million has been made to "Administrative expenses" to reflect that certain costs historically recognised by Standard Life Assurance will no longer be incurred going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group under the terms of the Share Purchase Agreement. This more than offsets the adjustment detailed in note 4(b) above. A £5 million charge has been recognised in "Tax attributable to owners", representing the reversal of tax credit received on these costs.

(d) An adjustment of £8 million has been made to "Other operating income" to reflect income related to activities that in the future will be performed by Standard Life Assurance. These activities were historically performed by another legal entity, Standard Life Client Management Limited, which will be retained by the Standard Life Aberdeen group. A tax charge of £2 million has been recognised in "tax attributable to owners" in this regard.

Note 5— A charge of £15 million has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the Revolving Credit Agreement and £100 million of hybrid capital instruments entered into to finance part of the Acquisition (see Note 5(c) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group). An associated tax credit of £3 million has been recognised within "Tax attributable to owners". As detailed in Note 5(b) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, the RT1 Notes qualify to be treated as equity under the requirements of IAS 32. Therefore, an adjustment of £23 million has been recognised in "Profit for the year attributable to Non-controlling interests – Subordinated notes", representing the net of tax coupon payable on the RT1 Notes.

Note 6—This column represents the following adjustments:

(a) A charge of £40 million has been made to the line item "Administrative expenses" to reflect an estimate of the one-off transaction costs incurred (this has been offset by the £77 million credit detailed in (b) (iii) below). No tax relief is expected to be available on these expenses.

(b) As described in note 6(d) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, a fair valuation exercise of the assets and liabilities as at the date of acquisition will be performed on Completion. This will include a fair valuation of the future cashflows associated with Standard Life Assurance's in-force insurance contracts. The resultant asset will be recognised as Acquired Value of In-Force business ("**AVIF**") in the statement of consolidated financial position.

Note 7—In preparing the unaudited pro forma IFRS income statement, no account has been taken of the amortisation of other intangibles other than AVIF arising on acquisition or items subject to fair value acquisition accounting, on the basis that the fair valuation exercise will be performed on Completion.

Note 8—All of the adjustments described in notes 4, 5 and 6 to the unaudited pro forma income statement will have a continuing impact, with the exception of the adjustment in relation to the estimated one-off transaction costs.

Note 9—Phoenix presents a supplementary non-GAAP analysis of the result for the year attributable to owners that separately identifies an operating profit based on expected long-term investment returns. The operating profit measure is stated before amortisation and impairment of intangibles, other non-operating items, finance costs and tax. The following table illustrates the effect of the proposed Acquisition and associated financing on the non-GAAP reconciliation of Group operating profit to result attributable to shareholders for the Enlarged Group on a pro forma basis. This information is supplementary to the unaudited pro forma IFRS income statement. The details of adjustments are described in the subsequent footnotes.

		Pro forma adjustments for the Group			
	Phoenix Note (a)	Standard Life Assurance Note (b)	Adjustments to conform disclosures Note (c)	Other adjustments Note (d)	Pro forma total
			(£ million)		
Total operating profit	**368**	**366**	**—**	**36**	**770**
Investment return variances and economic assumption changes on long-term business	(6)	135	24	—	153
Variance on owners funds	(87)	(3)	—	—	(90)
Provision for annuity sales practices	—	(100)	100	—	—
Amortisation of acquired in-force business	(102)	—	—	(201)	(303)
Amortisation of other intangibles	(17)	—	—	—	(17)
Profit attributable to Non-controlling interest – Other	—	24	(24)	—	—
Other non-operating items	(80)	(10)	(100)	(40)	(230)
Profit before finance costs attributable to owners	**76**	**412**	**—**	**(205)**	**283**
Finance costs attributable to owners	(104)	(20)	—	5	(119)
(Loss)/profit before tax attributable to owners	**(28)**	**392**	**—**	**(200)**	**164**
Tax credit/(charge) attributable to owners	1	(48)	—	21	(26)
(Loss)/profit for the year attributable to owners	(27)	344	—	(189)	138

Notes:

Note (a)—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note (b)—The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in Part IX (''*Financial Information of Standard Life Assurance*'') of this document.

Note (c)—This column reflects adjustments to align the presentation of Standard Life Assurance's non-GAAP reconciliation of operating profit to result attributable to shareholders to that of Phoenix as follows:

(i) Standard Life Assurance has disclosed ''Provision for annuity sales practices'' separately on the face of the non-GAAP reconciliation of operating profit to result attributable to shareholders. Phoenix would include such amounts within ''Other non-operating items''. A reclassification of £100 million has been made in this regard.

(ii) Standard Life Assurance has disclosed ''Profit attributable to Non-controlling interest – other'' separately, whereas Phoenix would include such amounts within ''Investment return variances and economic assumption changes on long-term business''. A reclassification of £24 million has therefore been made.

Note (d)—This column represents the following adjustments as detailed in Notes 4, 5 and 6 above:

(i) An adjustment of £40 million has been made to the line item ''Other non-operating items'' to reflect an estimate of the one-off transaction costs incurred.

(ii) An adjustment of £201 million to ''Amortisation of acquired in-force business'' will be charged to the income statement reflecting the incremental amortisation charge on the AVIF arising on acquisition as described in Note 6(b) above.

(iii) An adjustment of £15 million to ''Finance costs attributable to owners'' reflecting the increase in interest costs payable under the Revolving Credit Agreement and the £100 million of hybrid capital instruments entered into to finance part of the Acquisition as described in note 5 above, is more than offset by the £20 million reduction in interest costs following the pre-Completion repayment of the £300 million Mutual Assurance Capital Securities, described in 4(a) above.

		(iv) The pre-tax impact of all other adjustments has been recognised within operating profit (see 4(b), 4(c), 4(d) and 6(b)(iii)). (v) An adjustment of £21 million to "Tax credit / (charge) attributable to owners" has been made to reflect the tax effect of the above items. **Note 10**—In preparing the unaudited pro forma IFRS income statement, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

Summary unaudited pro forma statement of IFRS net assets of the Enlarged Group as at 31 December 2017

		Pro forma adjustments for the Group					
	Phoenix Note 1	Standard Life Assurance Note 2	Adjustments to conform disclosures Note 3	Pre-Completion adjustments Note 4	Financing adjustments Note 5	Acquisition adjustments Note 6	Pro forma total
				(£ million)			
Assets							
Pension Scheme asset	322	1,099	—	(1,099)	—	—	322
Intangible Assets:							
—Goodwill	57	—	—	—	—	—	57
—Acquired in-force business	1,298	—	—	—	—	2,014	3,312
—Deferred acquisition costs	—	606	—	—	—	(606)	—
—Other intangibles	202	85	—	—	—	—	287
	1,557	691	—	—	—	1,408	3,656
Deferred tax	—	11	—	—	—	—	11
Property, plant and equipment	26	7	—	—	—	—	33
Investment property	612	8,374	—	—	—	—	8,986
Financial Assets:							
—Loans and deposits	1,812	105	—	—	—	—	1,917
—Derivatives	2,760	3,026	—	—	—	—	5,786
—Equities	17,234	—	53,983	—	—	—	71,217
—Investment in associates	550	—	—	—	—	—	550
—Fixed and variable rate income securities	26,998	59,457	—	—	—	—	86,455
—Equity securities and investments in pooled investment funds	—	96,067	(96,067)	—	—	—	—
—Collective investment schemes	18,901	—	42,084	—	—	—	60,985
—Reinsurers' share of investment contract liabilities	6,085	—	—	—	—	—	6,085
	74,340	158,655	—	—	—	—	232,995
Insurance Assets:							
—Reinsurers' share of insurance contract liabilities	3,320	4,822	—	—	—	—	8,142
—Reinsurance receivables	32	—	2	—	—	—	34
—Insurance contract receivables	7	—	71	—	—	—	78
	3,359	4,822	73	—	—	—	8,254
Current tax	47	—	165	—	—	—	212
Prepayments and accrued income	355	—	145	—	—	—	500
Other receivables	580	—	513	—	—	—	1,093
Receivables and other financial assets	—	616	(616)	—	—	—	—
Other assets	—	280	(280)	—	—	—	—
Cash and cash equivalents	2,245	8,677	—	(1,132)	1,941	(1,971)	9,760
Assets classified as held for sale	—	156	—	—	—	—	156
Total assets	**83,443**	**183,388**	**—**	**(2,231)**	**1,941**	**(563)**	**265,978**
Liabilities							
Pension Scheme liabilities	633	51	—	(42)	—	—	642
Insurance Contract Liabilities:							
—Liabilities under insurance contracts	44,435	22,747	29,974	—	—	40	97,196
—Participating contract liabilities	—	30,577	(30,577)	—	—	—	—
—Unallocated surplus	925	—	603	—	—	—	1,528
	45,360	53,324	—	—	—	40	98,724
Financial Liabilities:							
—Investment contracts	26,733	104,383	—	—	—	78	131,194
—Borrowings	1,778	318	—	(318)	509	—	2,287
—Deposits received from reinsurers	368	4,633	—	—	—	—	5,001
—Derivatives	1,242	768	—	—	—	—	2,010
—Net asset value attributable to unit holders	840	13,371	—	—	—	—	14,211
—Obligations for repayment of collateral received	1,961	—	1,494	—	—	—	3,455
	32,922	123,473	1,494	(318)	509	78	158,158
Provisions	134	—	281	—	—	—	415
Deferred tax	366	235	—	—	—	277	878
Reinsurance payables	23	—	5	—	—	—	28
Payables related to direct insurance contracts	522	—	317	—	—	—	839
Current tax	5	116	—	—	—	—	121
Accruals and deferred income	179	157	64	—	—	(157)	243
Other financial liabilities	—	2,538	(2,538)	—	—	—	—
Other liabilities	—	374	(374)	—	—	—	—
Other payables	144	—	751	—	—	40	935
Total liabilities	**80,288**	**180,268**	**—**	**(360)**	**509**	**278**	**260,983**
Net assets attributable to owners of the parent	3,155	2,321	—	(1,369)	937	(841)	4,203
Non-controlling interests – Subordinated notes	—	502	—	(502)	495	—	495
Non-controlling interests – Other	—	297	—	—	—	—	297

Notes:

Note 1—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note 2—The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in Part IX (''*Financial Information of Standard Life Assurance*'') of this document.

Note 3—This column reflects adjustments to align the presentation of the Standard Lif Assurance statement of net assets with that of the Group:

(a) Phoenix recognises ''Equities'' and ''Collective investment schemes'' separately, whereas Standard Life Assurance discloses these amounts together. Accordingly reclassification adjustments of £53,983 million and £42,084 million have been made from ''Equity securities and interests in pooled investment funds'' to ''Equities'' and ''Collective investment schemes'' respectively.

(b) Standard Life Assurance discloses items in the captions ''Receivables and other financial assets'' and ''Other assets'' that Phoenix discloses in other lines. Reclassifications of £145 million to ''Prepayments and accrued income'', £2 million to ''Reinsurance receivables'', £71 million to ''Insurance contract receivables'', £165 million to ''Current tax'' and £513 million to ''Other receivables'' have therefore been made.

(c) Standard Life Assurance discloses ''Participating contract liabilities'' separately, whereas Phoenix discloses such items within ''Liabilities under insurance contracts'' and ''Unallocated surplus''. Reclassifications of £29,974 million and £603 million have therefore been made to ''Liabilities under insurance contracts'' and ''Unallocated surplus'' respectively.

(d) Standard Life Assurance discloses items in the captions ''Other financial liabilities'' and ''Other liabilities'' that Phoenix discloses in other lines. Reclassifications of £5 million to ''Reinsurance payables'', £317 million to ''Payables related to direct insurance contracts'', £64 million to ''Accruals and deferred income'', £1,494 million to ''Obligations for repayment of collateral'', £281 million to ''Provisions'' and £751 million to ''Other payables''.

Note 4—This column represents the following adjustments:

(a) Under the terms of the Share Purchase Agreement, Standard Life Assurance has paid a dividend of £312 million prior to Completion. Standard Life Assurance will also repay the Mutual Assurance Capital Securities (recognised within ''Borrowings'') and the ''Non-controlling interest – Subordinated notes''. As such, the following adjustments have been made to the unaudited pro forma statement of net assets:

(i) an adjustments of £312 million has been made to ''Cash and cash equivalents'' to reflect the payment of the dividend; and

(ii) adjustments of £318 million to ''Borrowings'', and £502 million to ''Subordinated notes – non-shareholders equity'' to reflect the repayment of the Mutual Assurance Capital Securities and the Subordinated Guaranteed Bonds respectively with a corresponding adjustment to ''Cash and cash equivalents'' of £820 million.

(b) Under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, adjustments of £1,099 million and £42 million have been made to remove the IAS 19 pension surplus and deficit from the ''Pension scheme asset'' and ''Pension scheme liability'' respectively.

Note 5—The total consideration is £2,930 million and will be met through Standard Life Aberdeen's 19.99% holding in the Enlarged Group of £959 million and cash consideration of £1,971 million. The value of the 19.99% share capital in the Enlarged Group issued to Standard Life Aberdeen has been calculated based on a £950 million Rights Issue and a market capitalisation of the Group of £2,888 million on 22 February 2018 (the date of signing of the Share Purchase Agreement) after deducting an assumed final dividend of 25.1 pence per share. The cash consideration will be financed through the gross proceeds of the £950 million Rights Issue and the £600 million issuance of hybrid capital instruments (including the RT1 Notes), with the remaining balance of £421 million being financed by a part-drawdown on the Revolving Credit Agreement. This results in the following financing adjustments:

(a) The expected gross proceeds of the Rights Issue are £950 million. Fees associated with the Rights Issue are estimated at £13 million, giving net proceeds of £937 million, recognised within ''Cash and cash equivalents''.

(b) The gross proceeds from the issuance of the RT1 Notes are £500 million. Fees associated with the issuance of the RT1 Notes are £6 million. The RT1 Notes meet the criteria to be classified as equity instruments under IAS 32, and accordingly the net proceeds of £495 million have been recognised in ''Cash and cash equivalents'' and ''Non-controlling interests – Subordinated notes''.

(c) An adjustment of £509 million has been made to ''Borrowings'' and to ''Cash and Cash Equivalents'' to reflect the borrowings under the £100 million issuance of hybrid capital instruments (excluding the RT1 Notes) and the £421 million part-drawdown of the Revolving Credit Agreement, net of associated expenses of £12 million.

Note 6—This column represents the following adjustments:

(a) An adjustment of £40 million has been made to ''Other Payables'' to reflect provision for estimated one-off transaction costs. No tax relief is expected to be available on these expenses.

(b) Payment of the cash consideration of £1,971 million results in a decrease in "Cash and Cash Equivalents" of that amount (see note 5 above).

(c) Following the Acquisition, it is anticipated that certain investment management fees incurred by the Enlarged Group will attract VAT where previously they were exempt from charge. Adjustments of £40 million and £78 million have been made to increase "Liabilities under insurance contracts", and "Investment contracts" to reflect the capitalised impact of these increased expenses on the valuation of insurance contract liabilities. These net asset impact of these adjustments is partly offset by a credit of £20 million recognised in "Deferred Tax".

(d) Under IFRS 3 Business Combinations, it is a requirement to fair value the consideration paid and all assets and liabilities acquired as at the acquisition date. This fair valuation exercise will not be performed until Completion, and therefore no adjustments have been made to the fair values of the individual assets and liabilities of Standard Life Assurance when preparing the unaudited pro forma statement of net assets.

A significant adjustment arising from the fair value exercise is expected to be the valuation of the future cashflows associated with the in-force insurance contracts of Standard Life Assurance and the subsequent recognition of an acquired value of in-force business asset.

Whilst the fair value of the of the projected cashflows will not be known until completion of the acquisition accounting exercise, an indication of the acquired value of in-force to be recognised on Completion is provided below.

	(£ million)
Total consideration	**2,930**
Less:	
Value of the IFRS net assets of Standard Life Assurance attributable to owners of the parent	854
Value of deferred acquisition costs, net of related deferred tax, included within the net assets of Standard Life Assurance	553
Add:	
Value of deferred income liabilities, net of related deferred tax, included within the net assets of Standard Life Assurance	149
Indicative AVIF, net of deferred tax	**1,672**
Gross up for deferred tax at 17 per cent.	342
Indicative AVIF	**2,014**

The value of the IFRS net assets of Standard Life Assurance of £854 million has been stated after reflecting the pre-Completion adjustments described in note 4 and the adjustments detailed in Note 6(c).

As such, the following adjustments have been made in the unaudited pro forma statement of net assets:

(i) an adjustment of £2,014 million has been recognised to "Acquired in-force business" as calculated above;

(ii) adjustments of £606 million and £157 million have been made to "Deferred acquisition costs" and "Accruals and deferred income" to reflect the removal of the Standard Life Assurance Deferred acquisition costs asset and Deferred income liability, as these amounts are replaced by the value of the AVIF upon acquisition; and

(iii) an adjustment of £297 million has been made to the caption "Deferred tax" to reflect the difference between the deferred tax liability of £342 million arising on the recognised AVIF balance (calculated using a tax rate of 17 per cent., reflecting future reductions in corporate tax rates where enacted in legislation) and the removal of a £53 million deferred tax liability recognised in respect of the Deferred acquisition costs and an £8 million deferred tax asset recognised in respect of Deferred income included in the net assets of Standard Life Assurance. As described in note 6(d)(ii) above.

(e) No other adjustments have been made to the fair values of assets and liabilities acquired, including the recognition of goodwill or other intangible assets, as the necessary remeasurements will not be known until Completion.

Note 7—In preparing the unaudited pro forma IFRS net asset statement, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

Unaudited Pro Forma Solvency Information of the Enlarged Group

The unaudited pro forma statement of Group Solvency II Surplus of the Enlarged Group (the "**Unaudited Pro Forma Solvency Information**") set out below has been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The Unaudited Pro Forma Solvency Information has been prepared to illustrate the effect on the Group solvency position at the level of Phoenix as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital

instruments (including the RT1 Notes) had taken place on 31 December 2017. The Unaudited Pro Forma Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company or the Enlarged Group's actual financial position, results or solvency position. The Unaudited Pro Forma Solvency Information is stated on the Company's basis of Solvency II reporting (the "**Solvency Accounting Policies**") expected to be applied by the Company for the year ending 31 December 2018.

Standard Life Assurance has regulatory approval to calculate its solvency capital requirements in accordance with its own internal model (with the exception of SLIDAC which uses standard formula). The preparation of the unaudited pro forma solvency information for the Enlarged Group has been completed using the Deduction and Aggregation method for the Standard Life entities. Under this method, Standard Life Assurance will continue to calculate its solvency capital requirements in accordance with its existing Internal Model or standard formula for SLIDAC. The use of the Deduction and Aggregation approach is subject to approval at the discretion of the PRA. The Group intends to make the relevant application to use the Deduction and Aggregation approach ahead of Completion.

The Group expects to work with the PRA to harmonise to a single group internal model in the future and to incorporate Standard Life Assurance within that model. Any such approval to use a single group internal model will also be within the discretion of the PRA.

Unaudited pro forma statement of Enlarged Group Solvency II Surplus as at 31 December 2017

		Pro forma adjustments				
	Phoenix Note 1	Standard Life Assurance Note 2	Pre-Completion adjustments Note 3	Financing adjustments Note 4	Acquisition adjustments Note 5	Pro forma Enlarged Group total
Own Funds *(£ billion)*	6.6	6.3	(2.1)	1.6	(2.2)	10.2
Solvency Capital Requirement *(£ billion)*	(4.8)	(3.2)	0.3	—	—	(7.7)
Solvency II Surplus *(£ billion)*	1.8	3.1	(1.8)	1.6	(2.2)	2.5
Regulatory Coverage Ratio	138%	—	—	—	—	132%
Shareholder Capital Coverage Ratio *(Note 6)*	164%	—	—	—	—	147%

Notes:

Note 1—The solvency information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note 2—The solvency information for Standard Life Assurance has been extracted without material adjustment, from the combined historical financial information of Standard Life Assurance as at and for the year ended 31 December 2017 included Part IX ("*Financial Information of Standard Life Assurance*") of this document.

Note 3—This column represents the following adjustments:

(a) Under the terms of the Share Purchase Agreement, Standard Life Assurance has paid a dividend prior to Completion which reduced Own Funds by £0.3 billion. Standard Life Assurance will also repay subordinated debt instruments that qualify to be recognised as Own Funds which will reduce the Own Funds by £0.8 billion.

(b) Under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, the impact of removing the defined benefit schemes is to reduce Own Funds by £1.1 billion and SCR by £0.3 billion.

(c) Certain costs historically recognised by Standard Life Assurance will no longer be incurred going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group under the terms of the Share Purchase Agreement. Removal of the capitalised value of these costs increases Own Funds by £0.1 billion.

Note 4—The financing adjustments in connection with the Acquisition include the following items which impact Own Funds. These adjustments have no impact on SCR:

(a) Equity raised of £1.0 billion under the Rights Issue will increase the Own Funds.

(b) The receipt of debt financing in the form of £600 million of hybrid capital instruments (including the £500 million gross proceeds from the issuance of the RT1 Notes) will increase the Own Funds by £0.6 billion as the hybrid capital instruments qualify as Own Funds under Solvency II.

(c) The receipt of debt financing in the form of the Revolving Credit Agreement increases both cash and borrowings by £0.4 billion, respectively. The impact on Own Funds is therefore net neutral.

Note 5—The acquisition adjustments comprise the following:

(a) The payment of the cash consideration reduces Own Funds by £2.0 billion. The cash consideration is calculated as the total consideration of £2.9 billion less the value of the 19.99% share capital in the Group issued to Standard Life Aberdeen of £0.9 billion, calculated based on a £1.0 billion Rights Issue and a market capitalisation of the Group of £2,888 million on 22 February 2018 (the date of signing of the Share Purchase Agreement) after deducting an assumed Final dividend of 25.1 pence per share.

(b) Expenses incurred in association with the proposed Acquisition, the associated financing including the issuance of £600 million of hybrid capital instruments and the Rights Issue will be borne by Phoenix and therefore decrease the Group Solvency II Surplus by £0.1 billion.

(c) Following Completion, it is anticipated that certain investment management fees incurred by the Enlarged Group will attract VAT where previously they were exempt from charge. The capitalised impact of these charges decreases Own Funds by £0.1 billion.

Note 6—The Shareholder Capital Coverage Ratio represents the ratio of Own Funds to SCR, after elimination of amounts related to unsupported with profit funds and the PGL Pension Scheme. Unsupported with profit funds and pension schemes are those whose Own Funds exceed their SCR.

As detailed in the table below, the Group Own Funds of £6.6 billion and Group SCR of £4.8 billion include amounts in respect of unsupported with profit funds and the PGL Pension Scheme of £2.0 billion. Excluding these amounts gives a Group Shareholder Capital position of £4.6 billion of Own Funds, £2.8 billion of SCR and a ratio of 164 per cent. The Group Solvency II Surplus is unchanged at £1.8 billion.

The Group	Base solvency	Unsupported with profit funds and PGL Pension Scheme	Shareholder Capital
Own Funds *(£ billion)*	6.6	(2)	4.6
SCR *(£ billion)*	(4.8)	2	(2.8)
Solvency II Surplus *(£ billion)*	1.8	0	1.8
Shareholder Capital Coverage Ratio	—	—	164%

The Standard Life Assurance Own Funds of £6.3 billion include amounts in respect of unsupported with profit funds of £0.4 billion and pension schemes in surplus of £1.1 billion. The Standard Life Assurance SCR of £3.2 billion includes amounts in respect of unsupported with profit funds of £0.4 billion and pension schemes in surplus of £0.3 billion. Excluding these amounts gives a Shareholder Capital position for Standard Life Assurance of £4.8 billion of Own Funds, £2.5 billion of SCR and a ratio of 192 per cent. Standard Life Assurance's Solvency II Surplus on the Shareholder Capital basis decreases to £2.3 billion. This reflects that at on a solo regulatory basis, credit is taken for the surplus on the pension schemes included within the regulatory basis Own Funds of Standard Life Assurance. On a Shareholder Capital basis, no credit is taken for surpluses in such pension schemes.

Standard Life Assurance	Base solvency	Unsupported with profit funds and Pension Schemes	Shareholder Capital
Own Funds *(£ billion)*	6.3	(1.5)	4.8
SCR *(£ billion)*	(3.2)	0.7	(2.5)
Solvency II Surplus *(£ billion)*	3.1	(0.8)	2.3
Shareholder Capital Coverage Ratio	—	—	192%

The pre-Completion, financing and acquisition adjustments described in notes 3, 4 and 5 all impact the Shareholder Capital position with the exception of the adjustment detailed in note 3(b) (as the pension schemes are removed when deriving the Shareholder Capital position). The Enlarged Group Shareholder Capital position therefore comprises £7.8 billion of Own Funds, £5.3 billion of SCR and a Shareholder Capital Coverage Ratio of 147 per cent. The Shareholder Capital position for the Enlarged Group excludes Own Funds and SCR amounts of £2.4 billion in respect of unsupported with profit funds and the PGL Pension Scheme. The Enlarged Group's Solvency II surplus of £2.5 billion is unchanged.

		Enlarged Group | **Base Solvency II position** | **Unsupported with profit funds and PGL Pension Scheme** | **Shareholder Capital** Own Funds *(£ billion)* | 10.2 | (2.4) | 7.8 SCR *(£ billion)* | (7.7) | 2.4 | (5.3) Solvency II Surplus *(£ billion)* | 2.5 | 0 | 2.5 Shareholder Capital Coverage Ratio | — | — | 147% **Note 7**—In preparing the unaudited pro forma statement of Group Solvency II Surplus, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.
B.9	**Profit forecast or estimate**	Not applicable. There is no profit forecast or estimate included in this document.
B.10	**Qualifications in the audit report on the historical financial information**	Not applicable. There are no qualifications to the auditors' report on the historical financial information of Phoenix.
B.11	**Working capital – qualifications**	Not applicable. The Company is of the opinion that taking into account the net proceeds of the Rights Issue and the bank and other facilities available to Group, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this document. The Company is of the opinion that the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this document.

SECTION C – SECURITIES

Element	Disclosure Requirement	Disclosure
C.1	**Type and class of securities**	The Rights Issue is being made to all Qualifying Shareholders on the register of members of the Company at 6.00 p.m. on 22 June 2018 (the "**Record Date**"), other than, subject to limited exceptions, to Shareholders with a registered address, or resident in, one of the Excluded Territories or one of the other Restricted Territories. Pursuant to the Rights Issue, the Company is proposing to offer 183,522,385 New Shares and the New Depositary Interests related to them to Qualifying Shareholders at 518 pence per New Share. Each New Share is expected to be issued at a premium of 517.9913 pence to its nominal value of €0.0001 (converted at the applicable exchange rate as at 5.00 p.m. on 29 May 2018, being the last Business Day prior to the announcement of the terms of the Rights Issue). At Completion, the Company will allot and issue up to 144,106,049 new Shares to Standard Life Aberdeen as part consideration pursuant to the Acquisition (the "**Acquisition Shares**"). When admitted to trading, the New Shares and the Acquisition Shares will be registered with ISIN: KYG7091M1096 and SEDOL: B45JKK9.
C.2	**Currency of the securities issue**	The New Shares and the Acquisition Shares will be issued with a nominal value of €0.0001 each and the "**Issue Price**" of the New Shares will be 518 pence per New Share.

C.3	**The number of issued and fully paid Shares**	As at the Latest Practicable Date, the Company had in issue 393,262,255 fully paid Shares of €0.0001 each and the nominal share capital of the Company amounted to €39,325.92.
C.4	**A description of the rights attached to the securities**	The New Shares and the Acquisition Shares will, when issued and fully paid, rank equally in all respects with the existing Shares in issue immediately prior to completion of the Rights Issue and immediately prior to Completion, respectively, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the New Shares and the Acquisition Shares, respectively.
C.5	**Restrictions on the free transferability of the securities**	There are no restrictions on the transferability of the Shares (including the New Shares and the Acquisition Shares).
C.6	**Admission**	Applications will be made to the UKLA and to the LSE for the New Shares to be admitted to the premium listing segment of the Official List and to trading on the LSE's main market for listed securities respectively. It is expected that Admission (nil paid) will become effective on 26 June 2018 and that dealings in the New Shares will commence, nil paid, as soon as practicable after 8.00 a.m. on that date. As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of the Shares will be cancelled. Further applications will be made to the UKLA and to the LSE for the re-admission of the Shares to trading on its main market for listed securities. It is expected that Re-admission will become effective following Completion and that dealings in the Shares will become effective at 8.00 a.m. on the date of Completion (and, in any event, prior to 31 December 2018), whereupon an announcement will be made by the Company to a Regulatory Information Service.
C.7	**Dividend policy**	The Company's dividend per share was 50.2 pence in respect of the year ended 31 December 2017. When taking into account the bonus adjustment associated with the rights issue completed at the time of the Abbey Life Acquisition, the equivalent dividend per share was 46.6 pence in respect of the year ended 31 December 2016 and 45.4 pence in respect of the year ended 31 December 2015. Supported by the additional long-term cashflows arising from the Acquisition, Phoenix announced on 23 February 2018 that it expects to increase its annualised dividend to £338 million from the date of the final 2018 dividend versus the current standalone annualised dividend of £197 million. Taking into account the impact of the Rights Issue and the associated bonus adjustment, this is approximately equivalent to a 4.3 per cent. increase in the dividend per share based on the share price of 772 pence as at 29 May 2018. Given the long-term run-off nature of the Group's business, the Directors believe it is prudent to maintain its stable and sustainable dividend policy going forward. The Group currently maintains a significant regulatory capital surplus that is resilient to market movements and had £535 million of cash at the holding company level as at 31 December 2017, providing further support for its stable and sustainable dividend policy.

SECTION D – RISKS		
Element	**Disclosure Requirement**	**Disclosure**
D.1	**Key risks specific to the Group, the Enlarged Group and their industry**	***Key risks specific to the Group, the Enlarged Group and their industry*** The Group's business is subject to the following key risks stemming from the economy and the performance of financial markets generally: • risks arising from economic conditions in the United Kingdom and other markets in which it operates or in which its and its policyholders' investments are invested; • risks arising from Brexit and any possible future second referendum on Scottish independence; • significant declines in equity markets, bond markets or property prices, significant movements in swap yields relative to gilt yields or changes in interest rates and inflation risks; and • competition, regulatory restrictions and an inability to raise acquisition financing in the future may make it difficult for the Group to execute its proposed M&A strategy. The Group's business is subject to the following key regulatory risks: • changes in law and regulation, changes in interpretation or emphasis with respect to existing law and regulation and/or industry-wide changes in approach to law and regulation; • the risk of potential intervention by the FCA, the PRA, the Central Bank of Ireland (the "**CBI**") and other regulators, including on industry-wide issues and to other specific investigations, reports and reviews, as well as individual and groups of customers referring disputes with the Group to the Financial Ombudsman Service ("**FOS**"); • potential changes in regulatory capital and other requirements; • the thematic review on the fair treatment of long-standing customers in the life insurance sector; and • the thematic review on annuity sales practices. The Group's business is subject to the following key operational risks: • changes in accounting standards and assumptions may lead to increases in the level of provisioning or additional provisions being made; • risks relating to the dependence of the Holding Companies upon distribution from their subsidiaries to cover operating expenses, debt interest and repayments, pension scheme contributions and dividend payments; • the ability of certain members of the Group to pay dividends may be restricted, or a failure to pay dividends according to the Group's dividend policy, or future changes to the Group's dividend policy; • changes in actuarial assumptions that, amongst others, may lead to increases in the level of reserving and regulatory capital required to be maintained; • the Group may fail to reduce the expenses of managing long-term business in line with the run-off profile of its funds; • the Group's risk management policies and procedures may not be effective;

		• the risk of adverse market perception relating to any reputational damage suffered by the Group, particularly because the Group operates in a highly regulated industry; • liabilities relating to product guarantees may increase, which may adversely affect the Group; • risks arising from new business that the Group is involved in; • risks related to the Group's participation in the bulk annuity market; • the Group may fail to attract, motivate and retain key personnel; and • the Group may be required to make further contributions, in addition to those already agreed, to its defined benefit pension schemes. The Group's business is subject to the following key risks as a result of the actions of third parties and other counterparties involved in its business: • the risks of defaults in relation to investments and financial investments and by counterparties; • risks relating to the Group's reliance on third party asset management firms to manage the Group's assets; • the Group may experience difficulties from outsourcing relationships; • the Group may be unable to maintain the availability of its systems and safeguard the security of its data; • third party reinsurers may be unwilling or unable to meet their obligations under reinsurance contracts, or vary or reduce the nature and scope of their cover; • the withdrawal of assets from investment management agreements may expose the Group to purchase price adjustments; and • legal and arbitration proceedings could cause the Group to incur significant expenses. The Group's business is subject to the following additional risks: • the Group may be materially adversely affected by its indebtedness; • the Group's finance facilities and debt instruments include covenants that may restrict the Group from taking certain actions; • future changes in tax legislation (including in relation to specific products) may adversely impact the Group; and • changes to the current VAT rules may result in VAT being chargeable on certain outsourcing agreements of the Group. ***Key risks specific to the Acquisition*** • The Acquisition is subject to a number of conditions which may not be satisfied or waived. • If the Acquisition does not complete, the Company might be liable to pay a break fee to Standard Life Aberdeen. • There can be no assurance that regulators or authorities will approve the Acquisition or not seek to impose new or more stringent conditions on the Group. • The value of Standard Life Assurance may be less than the consideration paid.

		• The Acquisition may not complete and, if the Directors fail to identify alternative acquisitions, Shareholders may be returned amounts from the net proceeds of the Rights Issue that are less than the original amounts paid. ***Key risks specific to the integration of Standard Life Assurance*** • The Group's success will be dependent upon its ability to integrate the businesses it purchases into its existing businesses. • The Group has limited management resources and thus may become distracted or overstretched by the process of integrating and managing the Group.
D.3	**Key risks specific to the Shares, the Nil Paid Rights or the Fully Paid Rights**	***Key risks specific to the Shares, the Nil Paid Rights or the Fully Paid Rights*** • The price of the Nil Paid Rights, the Fully Paid Rights, the Shares and/or the Depositary Interests could be subject to significant fluctuations. • There may not be an active trading market for the Nil Paid Rights, the Fully Paid Rights, the New Shares and/or the New Depositary Interests. • Shareholders who do not acquire New Shares and/or New Depositary Interests in the Rights Issue will experience dilution in their ownership of the Company. • Shareholders will experience dilution in their ownership following the issuance of the Acquisition Shares in connection with the Acquisition. • The issuance of the Acquisition Shares and future issuances of Shares may adversely affect the market price of the Shares. • Standard Life Aberdeen will retain a significant interest in Phoenix and its interests may differ from those of other Shareholders. • Shareholders outside the UK may not be able to subscribe for New Shares and/or New Depositary Interests in the Rights Issue. • Re-admission may not occur when expected.

SECTION E – OFFER		
Element	**Disclosure Requirement**	**Disclosure**
E.1	**Total net proceeds and estimated total expenses of the issue**	The net proceeds of the Rights Issue are expected to be approximately £937 million (net of expenses incurred in connection with the Rights Issue). No proceeds will accrue to Phoenix in connection with the issuance of the Acquisition Shares to Standard Life Aberdeen pursuant to the Acquisition. The total costs, charges and expenses payable by the Company in connection with the Rights Issue, the Acquisition and associated financing are estimated to be approximately £70 million (inclusive of VAT). No expenses will be charged by the Company to any investor in respect of the Rights Issue or Re-admission.
E.2a	**Reasons for the offer, use of proceeds and estimated net amount of proceeds**	The proceeds of the Rights Issue will be used to fund part of the consideration for the Acquisition, together with the associated transaction and acquisition costs. The net proceeds of the Rights Issue will be placed on deposit pending Completion. If Completion does not take place before 31 December 2018, the Directors intend to retain the net proceeds of the Rights Issue for use within the following 12 months on the general commercial activities of the Group and alternative acquisitions in pursuit of the Group's strategy as a consolidator of closed life and pension funds. Failing this, the Directors will either seek to return the net proceeds of the Rights Issue to Shareholders in a tax efficient and

		practicable manner or seek Shareholders' approval to continue to hold the net proceeds of the Rights Issue for general corporate purposes.
E.3	**Terms and conditions of the Rights Issue**	Pursuant to the Rights Issue, the Company is proposing to offer 183,522,385 New Shares and/or New Depositary Interests by way of a Rights Issue to Qualifying Shareholders other than, subject to limited exceptions, to Shareholders with a registered address in, or resident in, one of the Excluded Territories or one of the other Restricted Territories. The offer is to be made at 518 pence per New Share, payable in full on acceptance by not later than 11.00 a.m. on 9 July 2018. The Directors intend to apply the proceeds of the Rights Issue to fund part of the consideration for the Acquisition, together with the associated transaction and acquisition costs. The net proceeds of the Rights Issue will be placed on deposit pending Completion. The Rights Issue is expected to raise approximately £937 million (net of expenses incurred in connection with the Rights Issue). The Issue Price represents a 32.9 per cent. discount to the closing middle market quotation of a Share as derived from the Daily Official List published by the LSE (the "**Closing Price**") of 772 pence per Share on 29 May 2018 (being the last Business Day before the announcement of the terms of the Rights Issue) and a 25.1 per cent. discount to the theoretical ex-rights price of 691 pence per Share calculated by reference to the Closing Price on 29 May 2018. The Rights Issue will be made on the basis of: 7 **New Shares at 518 pence per New Share for every 15 Existing Shares** held by Qualifying Shareholders at the close of business on the Record Date. Entitlements to New Shares and/or New Depositary Interests will be rounded down to the nearest whole number and fractional entitlements will not be allotted to Shareholders but will be aggregated and issued into the market for the benefit of the Company. Holdings of Existing Shares which are in certificated form, and which are recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST, will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. The Rights Issue will result in 183,522,385 New Shares being issued (representing approximately 46.7 per cent. of the existing issued share capital and, assuming no additional Shares are issued prior to the Rights Issue, approximately 31.2 per cent. of the issued share capital of the Company immediately following completion of the Rights Issue (the "**Enlarged Share Capital**") on a fully diluted basis). The Rights Issue is fully underwritten by the Banks pursuant to the Sponsor and Underwriting Agreement. The Rights Issue is conditional, *inter alia*, upon: (i) the Sponsor and Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; (ii) Admission becoming effective by not later than 8.00 a.m. on 26 June 2018 (or such later time and/or date as the Company may agree with the Joint Global Coordinators); and (iii) the passing, without material amendment, of the resolutions to be proposed at the General Meeting. The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Shares, including the right to receive dividends or distributions made, paid or declared after the date of this document.

		Application will be made to the UKLA and to the LSE for the New Shares to be admitted to the Official List and to trading on the LSE. It is expected that Admission will occur and that dealings in the New Shares (nil paid) on the LSE will commence at 8.00 a.m. on 26 June 2018.
E.4	**Interests that are material to the issue including conflicting interests**	Not applicable. There are no interests, including conflicting interests, that are material to the Acquisition or the Rights Issue.
E.5	**Name of the person or entity offering to sell the securities and details of any lock-up agreements**	Not applicable. The Rights Issue comprises an offer of new Shares to be issued by the Company. The Acquisition Shares will also comprise new Shares to be issued by the Company. No lock-up agreement has been executed in respect of the Rights Issue or the issuance of the Acquisition Shares.
E.6	**Dilution**	Qualifying Shareholders who do not take up their entitlements to New Shares and/or New Depositary Interests will have their proportionate shareholdings in the Company diluted by up to approximately 31.8 per cent. as a consequence of the Rights Issue. If the Acquisition completes, Shareholders will suffer a reduction of up to approximately 19.99 per cent. in their proportionate ownership and voting interest in the Shares as represented by their holding of Shares immediately following Re-admission, even if they take up their full rights under the Rights Issue, as a result of the issuance of the Acquisition Shares by Phoenix to Standard Life Aberdeen.
E.7	**Estimated expenses charged to the investor**	Not applicable. No expenses will be charged by the Company to any investor in respect of the Rights Issue or Re-admission.

RISK FACTORS

The Rights Issue, the Acquisition and any investment in the Shares, New Shares or the New Depositary Interests are subject to a number of risks. Accordingly, Shareholders and prospective investors should carefully consider the factors and risks associated with any investment in the Shares, the New Shares or the New Depositary Interests, the Group's and the Enlarged Group's business and the industry in which it operates, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below, and their personal circumstances, prior to making any investment decision. Some of the following factors relate principally to the Group's and the Enlarged Group's business. Other factors relate principally to the Rights Issue, the Acquisition and an investment in the Shares, the New Shares or the New Depositary Interests. The Group's business and the Enlarged Group's business, operating results, financial condition and prospects could be materially and adversely affected by any of the risks described below. In such case, the market price of the Nil Paid Rights, the Fully Paid Rights, the Shares, the New Shares and/or the New Depositary Interests may decline and investors may lose all or part of their investment.

*Prospective investors should note that the risks relating to the Group and the Enlarged Group, its industry and the Shares, the New Shares and the New Depositary Interests summarised in the section of this document headed "Summary" are the risks that the directors of the Company as at the date of this document or, where the context so requires, the directors of the Company from time to time (the "**Directors**") believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares, the New Shares or the New Depositary Interests. However, as the risks which the Group and the Enlarged Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.*

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares, the New Shares or the Depositary Interests and should be used as guidance only. Additional risks and uncertainties relating to the Group and the Enlarged Group that are not currently known to the Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's and the Enlarged Group's business, prospects, operating results and financial position and, if any such risk or risks should occur, the price of the Shares, the New Shares and the New Depositary Interests may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares, the New Shares or the New Depositary Interests is suitable for them in the light of the information in this document and their personal circumstances.

References in this section to the Group include references to the enlarged Group following Completion (the "**Enlarged Group**"). "**SLPF**" means Standard Life Pension Funds Limited; and "**Acquisition Life Companies**" means SLAL, SLIDAC and SLPF, together.

RISKS RELATING TO THE ACQUISITION

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

Completion is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including PRA approval, CBI approval, the approval by Shareholders of the Acquisition as a reverse takeover and class 1 transaction under the Listing Rules, the approval by Standard Life Aberdeen shareholders of the Acquisition as a class 1 transaction under the Listing Rules, completion of a restructuring of the SLAL group and the Company receiving the proceeds of the Rights Issue. Although the Company and each of the other parties to the Share Purchase Agreement has agreed to use reasonable efforts to satisfy each condition as promptly as practicable after signing the Share Purchase Agreement, there is no assurance that these (or other) conditions will be satisfied (or waived, if applicable) either at or before 31 December 2018 (or such other date as the Company and Standard Life Aberdeen may agree in writing) (the "**Long Stop Date**"), in which case the Acquisition may not be completed. No assurance can be given that all necessary approvals, clearances or conditions will be obtained, satisfied or waived and that Completion will take place. If the Acquisition does not complete, the Company would nonetheless have incurred approximately £29 million of costs (primarily due diligence, advisory and financing fees) in connection with the Acquisition. Failure to complete the Acquisition may materially adversely affect the business and financial condition of the Group and, accordingly, the Group's operating results and the trading price of the Shares.

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

Pursuant to the terms of the Share Purchase Agreement, the Company has agreed to pay a break fee of £30 million to Standard Life Aberdeen in certain circumstances, including where the Acquisition does not complete because the General Meeting is not convened and held by 5.00 p.m. on 30 November 2018 or where, prior to the General Meeting, the Directors qualify, change or withdraw their recommendation that Shareholders vote in favour of the resolutions to be proposed at the General Meeting (the "**Resolutions**") and the Shareholders do not then approve the Resolutions.

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

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

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

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

The Acquisition may not complete and, if the Directors fail to identify alternative acquisitions, Shareholders may be returned amounts from the net proceeds of the Rights Issue that are less than the original amounts paid by Shareholders in connection with the Rights Issue.

The Directors intend to apply the proceeds of the Rights Issue to fund part of the consideration for the Acquisition, together with the associated transaction and acquisition costs. The net proceeds of the Rights Issue will be placed on deposit pending Completion. If Completion does not take place before the Long Stop Date, the Directors intend to retain the net proceeds of the Rights Issue for use within the following 12 months on the general commercial activities of the Group and alternative acquisitions in pursuit of the Group's strategy as a consolidator of closed life and pension funds. Failing this, the Directors will either seek to return the net proceeds of the Rights Issue to Shareholders in a tax efficient and practicable manner or seek Shareholders' approval to continue to hold the net proceeds of the Rights Issue for general corporate purposes. There can be no assurance that the Directors would be able to identify suitable alternative acquisitions, in which case the sums eventually returned to Shareholders from the net proceeds of the Rights Issue may be less than the original amounts paid by Shareholders in connection with the Rights Issue.

RISKS RELATING TO THE INTEGRATION

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

The operations of the current Phoenix businesses and the Standard Life Assurance businesses will be integrated to form the combined operations of the Group over a period of at least three to four years. Whilst Phoenix has demonstrable experience in integrating businesses and is able to draw on its

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

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

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

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

RISKS RELATING TO THE GROUP

Economy and Financial Markets

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

The Group's business is subject to risks arising from general and sector-specific economic conditions in the markets in which it operates or invests, particularly the United Kingdom, in which the Group's earnings are and will be predominantly generated and in which its and its policyholders' investments are predominantly invested. Although under drawdown or accumulation policies investment risks are often borne, in whole or in part, by its policyholders in accordance with the terms of the relevant

policies, fluctuations in investment markets and the general rate of inflation will, directly and indirectly, affect the financial position of the Group including its value, reserving and regulatory capital requirements and results. In addition, the Group bears risk in respect of products where the benefits are not aligned with the investment performance of the assets which support them. Substantial decreases in the value of investments could lead to shareholder capital of the Phoenix Life Companies and/or the Acquisition Life Companies being required to meet obligations to policyholders and reserving and regulatory capital requirements and could restrict the ability of the Phoenix Life Companies and the Acquisition Life Companies to distribute dividends or release capital to service debt or pay Shareholder dividends. Such decreases may also encourage policyholder retention to decrease, and withdrawals to increase, as policyholders seek to reduce their exposure to the Group's investments. Decreases in the value of investments could also require further capital to be held to cover pension scheme obligations.

The exact impact of market risks faced by the Group is uncertain, difficult to predict and respond to, in particular, in view of: (i) the unpredictable consequences of the vote by the United Kingdom to leave the European Union, also known as "**Brexit**"; (ii) difficulties in predicting the rate at which any economic deterioration may occur, and over what duration; and (iii) the fact that many of the related risks to the business are totally, or partly, outside the control of the Group.

As part of contingency planning for Brexit, Standard Life Assurance intends to transfer its Irish and German branches into Standard Life International Designated Activity Company ("**SLIDAC**") (a wholly-owned Irish subsidiary of Standard Life Assurance, which will be part of the Enlarged Group) by way of a Part VII transfer in early 2019. Standard Life Assurance estimates indicate that SLIDAC will require approximately £250 million of additional capital from SLAL under their central scenario. Furthermore, there is a potential that in the absence of mitigating actions, this Part VII transfer could increase the Group SCR in the period prior to receipt of PRA approval for a single harmonised Solvency II Internal Model that incorporates Standard Life Assurance. See "*Regulatory capital and other requirements may change*" below.

Furthermore, Brexit has adversely affected the global markets. Brexit, and the final departure of the United Kingdom from the European Union, could further lead to volatility in the value of securities listed on the LSE's main market for listed securities, including the Shares.

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

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

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

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

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

The Group's ability to acquire closed life fund companies and portfolios will depend upon a number of factors, including its ability to identify suitable acquisition opportunities, its ability to consummate acquisitions on favourable terms and the Group's ability to obtain financing to make acquisitions and

support growth (for example, through new business or bulk purchase arrangements). Additionally, the Group's ability to obtain required regulatory consents from the FCA and PRA and other relevant regulatory authorities for acquisitions, disposals and insurance business or portfolio transfers (including under Part VII of FSMA) will depend on, amongst other things, the financial condition of the Group, the financial implications of any acquisition of the Group, the impact of such implications on new and existing policyholders and wider risks to policyholder security.

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

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

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

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

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

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

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

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

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

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

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

Relative movements in credit spreads, gilt yields and swap yields may affect the calculated value of the assets and liabilities of the Group and different financial and actual metrics which are applied to the Group (including those in this document) will respond in different ways. For example, the market value of the Group's holdings in gilts will move in line with changes in gilt yields, whereas the Group's holdings in certain other assets such as swaps, swaptions and other derivatives will move in line with swap yields. For reporting under the Solvency II Directive (2009/138/EC) ("**Solvency II**"), and the calculation of reserving and regulatory capital, the Group's liabilities generally move in line with swap yields. Changes in the relative swap yields versus gilt yields could therefore have adverse impacts on the Group's regulatory capital position and its Own Funds (as defined below), and the impacts may not move in a linear fashion. The Group implements hedging arrangements which seek to partially mitigate some changes in relative yields but not all exposure is hedged and it may not be possible, feasible or desirable to hedge all such exposures in the future. Similarly, movements in credit spreads may also adversely impact on the Group's capital and profit positions. Asset valuations change by reference to the entire change in the credit spread, whereas the liability calculation may only reflect part or none of the movement in credit spread depending on the type of business and the metric being considered.

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

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

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

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

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

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

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

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

On 23 July 2014, the Company entered into the Revolving Credit Agreement, as amended and restated on 21 March 2016, 24 October 2016, 20 February 2017 and 30 March 2017 and as amended on 2 May 2018. Under the Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest, although it is currently undrawn.

On 23 February 2018, the Company entered into a £900 million backstop revolving credit agreement (the "**Backstop Revolving Credit Agreement**"). Under the Backstop Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest and which was only intended to be utilised if the Revolving Credit Agreement had been cancelled. On 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled.

On 23 February 2018, the Company also entered into a £600 million acquisition facility agreement (the "**Acquisition Facility Agreement**"). Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million, which bears a floating interest rate and which is currently undrawn.

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

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

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

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

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

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

Additionally, the underlying collateral supporting a counterparty's securities-redelivery obligation could be invested by collateral managers in a manner that breaches the terms of their investment mandates, causing the Group to incur losses on its securities-lending transactions, with potential material adverse effects on the Group's business, results, financial condition and prospects.

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

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

Regulatory Risks

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

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

In the United Kingdom, a number of significant changes to law and regulation are currently being proposed or have relatively recently been implemented. In the pensions sector, the effect of certain new laws and regulations has not yet been fully realised, in part because the new laws and regulations may change customer behaviours. Of particular note are the series of legal, tax and regulatory

changes that are described as "pensions freedoms". One of the Group's main lines of business is the management of customers' pension policies and the provision of annuities. Historically, the UK's tax regime provided favourable tax treatment for individuals who saved using their pension policies, but then limited the manner in which that tax treatment could be preserved except through the purchase of an annuity. In 2014, the government set in train reforms relating to how people are able to access their pension savings, part of the so called "pension freedoms". On 1 April 2015, wide-ranging reforms of UK pensions legislation came into effect, including the cessation of the requirement for pension benefits to be taken in the form of an annuity and a requirement for customers to receive guidance on their options at the time of retirement. The advent of these freedoms resulted in a reduction in annuity sales. It is also possible that (as has happened since the advent of the reforms) there may continue to be a reduction in customer retention in particular when a customer with a pension policy decides to buy an annuity. In addition, the UK government has announced a "pensions dashboard" proposal, which is expected to apply from 2019. This will allow customers to view all of their pension policies (across multiple providers). The Group is monitoring and projecting the impact of these reforms on its business, but the true impact will only become clear once relevant laws and regulations are implemented and, following that, a stable pattern of customer experience has emerged. Although, there is no directly equivalent legislation in Ireland and Germany in relation to "pension freedoms" and the introduction of a "pensions dashboard", as in the UK, the relevant legal and regulatory landscape is subject to significant and continuous change.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory capital and other requirements may change.

Firms that are authorised to underwrite insurance, like the Phoenix Life Companies, SLIDAC and SLAL, are required to maintain reserves of assets to match their best estimate of their liabilities under the policies they have written. The excess of assets over liabilities is called "**Own Funds**", with specific rules about what types of asset are eligible and the proportion of Own Funds that each type

of eligible asset may represent. Such firms are also required to maintain sufficient Own Funds to meet the solvency capital requirements ("**SCR**") under the Solvency II regime, under a standardised formula or an Internal Model (as described below). The Group maintains capital at target levels over and above a Group SCR, in accordance with its stated risk appetite. If the Group's excess over SCR is below these target levels, discretionary payments outside of the Group could continue to be made. However, the board of directors of the Company (the "**Board**") would need to consider the circumstances leading to the shortfall, the expected timeline for restoring the Group's solvency capital to the target levels, as well as implications for other key financial metrics.

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

- *Solvency II Internal Model*: Solvency II requires that a separate "solo" SCR is determined for each authorised insurance company. In addition, Solvency II applies a group SCR, which takes into account the regulatory capital requirements of the Phoenix Life Companies, as well as certain features, strengths and weaknesses of the wider Group. The PRA has approved an agreed methodology and model to calculate the existing Group SCR pursuant to Solvency II (the "Solvency II Internal Model") The PRA has also approved a Solvency II Internal Model for SLAL and SLPF. The Group intends to work with the PRA to harmonise to a single Solvency II Internal Model in the future, which incorporates Standard Life Assurance within it. This process may take a reasonable length of time and, in the period following Completion prior to receipt of PRA approval for a single harmonised Solvency II Internal Model, it is possible that the Group may need to hold additional capital to meet its capital requirements. In particular, following the Part VII transfer of Standard Life Assurance's Irish and German branches into SLIDAC, expected to take place in early 2019, it is possible that the Group may need to hold additional capital during this period (beyond that required at the SLIDAC entity level) or seek to undertake mitigating actions such as the restructuring of the Group's holding in SLIDAC such that Phoenix holds a direct rather than indirect interest in the subsidiary, and/or implement changes to the Solvency II Internal Model (all such actions being subject to regulatory approval). The Group may also be unable to agree changes to a single harmonised Solvency II Internal Model with the PRA in the future, which could mean maintaining two internal models and/or requiring to hold additional capital as applied by the PRA to reflect the risk profile of the Group. This could significantly increase the amount of regulatory capital the Phoenix Life Companies, SLAL, SLPF and/or other members of the Group have to hold.

- *Matching Adjustments*: The Phoenix Life Companies and SLAL apply a "matching adjustment" to certain long-term liabilities that are closely matched by an assigned matching adjustment portfolio of assets of equivalent nature, term and currency ("**Matching Adjustment**"). This Matching Adjustment partially mitigates the sensitivity of the balance sheet to changes in the market prices of assets held in the assigned matching adjustment portfolio, in funds where the Matching Adjustment is approved. The Matching Adjustment is subject to strict criteria and ongoing compliance in relation to maintenance of close matching, asset and liability characteristics and segregation of the management of the assigned matching adjustment portfolios. The Phoenix Life Companies and SLAL have permission from the PRA to apply the Matching Adjustment in respect of certain agreed portfolios of liabilities, thereby reducing the reserves and capital requirements associated with such liabilities. This may change in the future.

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

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

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

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

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

- the lack of board and senior management oversight of closed book customers and outcomes;
- whether customers were aware of the effect of exit and paid up charges on their policies and the quality of information provision on the economic effect of exit and paid up charges;
- firms' behaviour, policies and attitudes towards applying exit charges;
- the impact of exit and paid up charges on customers shopping around and customer choice;
- the absence, within most firms, of a review of products (and related charges) to assess whether customers were getting fair outcomes; and

- where there are product reviews, over-reliance or overemphasis on compliance with contractual terms and conditions even where actual customer detriment is identified.

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

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

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

In May 2016, the FCA launched a consultation on proposals to cap early exit pension charges, both for existing contracts that contain an early exit charge (where it is proposed the cap would be 1 per cent. of policy value) and also new contracts (where no exit charge would be permitted). On 15 November 2016, the FCA announced that, from 31 March 2017, where a customer is over 55 years of age and therefore eligible to realise benefits from its pension pot, early exit charges will be capped at 1 per cent. of the value of existing contract-based personal pensions. For customers over 55 years of age, early exit charges that are currently set at less than 1 per cent. have not been increased. In addition, a cap on occupational schemes was introduced by the Department of Work and Pensions in October 2017. Phoenix introduced these changes in 2017 for all pension customers.

In June 2017, the FCA issued a request for information to assist them with planning the scope of their forthcoming thematic review of the fair treatment of with-profits customers. This information was supplied in August 2017. This work is ongoing.

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

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

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

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

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

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

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

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

(a) identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA has asked those firms to review their practices since 2008, appoint skilled persons to oversee the review, and provide redress where necessary; and

(b) identified other areas of possible concern, including in relation to the recording and maintenance of records of calls.

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

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

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

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

Deutsche Bank has provided PLHL with an indemnity, with a duration of eight years, in respect of such exposures to the extent they arise and apply to ALAC. The maximum amount that can be

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

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

Standard Life Aberdeen reported an increase in the provision for annuity sales practices and related matters of £100 million and a use of such provision of £27 million during the year ended 31 December 2017, resulting in a total provision of £248 million (2016: £175 million) in its 2017 annual accounts as an estimate of the redress payable to SLAL annuity customers, as well as the costs of conducting the review and other related costs and expenses. The provision and timeline are based on assumptions and it will not be until the review is underway and further progressed that these will be confirmed and validated. There is a risk that the underlying assumptions are incorrect, which may result in an overall cost that is higher or lower than the provision. The Standard Life Aberdeen group has not provided for any possible FCA-levied financial penalty relating to the review.

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

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

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

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

Internal Operations and Management

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

A provision is recognised when the Group has present legal or constructive obligations as a result of a past event and it is probable that an outflow of resources will be required to settle these obligations. Where the Group has present legal or constructive obligations, but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability. Provisions held by the Group, including those

relating to tax, may be subject to estimates and may prove inadequate or inaccurate resulting in a material liability. Liabilities may also arise where no provision has been made. In particular, there is a time lag between acquisitions, disposals and other corporate transactions undertaken by the Group and the review of its tax treatment by HM Revenue & Customs ("**HMRC**"). While significant transactions are discussed with HMRC on an ongoing basis, in some cases formal confirmation of HMRC's position cannot be obtained until the relevant tax returns are submitted, which can lead to uncertainty. If a liability, including tax, were to arise in respect of which there is inadequate or no provision, this could have a material adverse effect on the Group's business, results, financial condition and prospects.

In addition, as at 31 December 2017, the Group has derivative assets of £2,760 million and derivative liabilities of £1,242 million. Determination of fair value is made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cashflows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions could have a material adverse effect on the estimated fair value amounts of financial instruments, which could affect the Group's business, results, financial condition and prospects.

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

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

The Company has ongoing principal repayment and interest payment obligations in respect of the 2027 Notes, the 2022 Notes, the Senior Bonds, the Subordinated Bonds, the £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes issued on 26 April 2018 (the "**RT1 Notes**") and for any amounts drawn under the Revolving Credit Agreement (which is currently undrawn) and the Acquisition Facility Agreement, each of which is more fully described in paragraph 12 ("*Material Contracts—The Company*") of Part XV ("*Additional Information*") of this document, which obligations are expected to be funded by existing cash resources, the release of capital, profits and liquidity from the Group's operating units or through refinancing. The Holding Companies also have ongoing commitments to make contributions to the Group's pension schemes in accordance with the agreed contribution schedules and to meet their general operating expenses. The availability and amounts of cashflows from subsidiaries, in particular the Phoenix Life Companies and the Acquisition Life Companies, may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital in the Group. Although the Holding Companies maintain cash buffers to reduce the reliance on emerging cashflows in any particular year, in the event that cashflows from the Group's subsidiaries are limited as a consequence of periods of severe market turbulence, this may in the longer term impair the Group's ability to service these obligations, which would have a material adverse effect on the Group's business, results, financial condition and prospects.

Certain members of the Group are restricted by applicable regulatory and other requirements in their ability to pay dividends. Dividends may not be paid according to the Group's dividend policy and the Group's dividend policy may change in the future.

Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things (and in each case, in respect of the Group): applicable regulatory, insurance, foreign exchange and tax laws, rules and regulations that limit the payment of dividends or

require approval for their payment; the financial position and the availability of cash and distributable reserves; there being sufficient excess above certain regulatory capital requirements; Board-approved target capital amounts; working capital requirements; asset and cash liquidity; gearing levels; the covenants within their finance and senior debt arrangements; the potential impact on the maintenance of their investment grade ratings; finance costs; general economic conditions; and other factors the relevant directors deem significant from time to time. Accordingly, unforeseen adverse circumstances may restrict the ability of the Company to adhere to its dividend policy and there can be no assurance that the Company will pay dividends in the future. It is also possible that the dividend policy may change in the future as a consequence of further acquisitions.

In certain circumstances, such as if a Group company was unable to meet applicable regulatory capital requirements or significant threats to policyholder protection were identified, the PRA or the CBI could intervene in the interests of policyholder security, for example, by imposing restrictions on the fungibility or movement of capital between members of the Group. Moreover, the Company may elect to reduce or forgo dividend payments as a means of maintaining or enhancing its capital position.

As part of the ongoing simplification of the Group structure, the Company is proposing to put in place a new UK-registered holding company for the Group as soon as is practicable following Completion. Unlike the position of the Company under the Companies Law, initial dividends of the new UK-registered holding company will depend on the cancellation of the share premium account to create distributable reserves. As part of this process, it is proposed that the new UK-registered holding company will undergo a reduction of capital in order to increase its distributable reserves. Such a reduction of capital is subject to the discretion and prior approval of the English High Court. The precise amount of the potential increase or decrease in the new UK-registered holding company's distributable reserves as a result of this process is not known at the date of this document but, on the basis that any such reduction of capital is approved, it is not expected to be material.

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

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

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

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

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

If the assumptions underlying calculations of reserves are shown to be incorrect (e.g., if policyholders do not die at the rate assumed in actuarial calculations or if the volume of guarantees that are required to be met at maturity is greater than assumed), the Group may have to increase the amount of its reserves or the amount of risk reinsured. The Group also has obligations towards pension schemes that are sensitive to longevity experience rates. If members live longer than expected, additional capital may need to be held to cover increased pension scheme obligations. Any of these factors could have a material adverse impact on the Group's business, results, financial condition and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

derivatives that may be maintained from time to time, interest rates and the longevity rates of annuity holders.

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

The Group is exposed to risks arising from new business.

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

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

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

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

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

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

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

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

The Group operates several different pension schemes. The three main pension schemes are: the pension scheme covering the past and present employees of the Group prior to the acquisition of the Resolution Group (the "**Pearl Scheme**"); the pension scheme covering the past and present employees of the subsidiaries of Impala Holdings Limited ("**Impala**") and the employees of the former SunLife Embassy Business (the "**PGL Pension Scheme**"); and the pension scheme relating to the former employees of Abbey Life (the "**Abbey Life Pension Scheme**"). Each of those schemes has both defined benefit and defined contribution sections. The defined benefit sections of each scheme are closed to new business and both the Pearl Scheme and the PGL Pension Scheme contain no active members. As at 31 March 2017, the Abbey Life Pension Scheme had 15 active members. For further

information, see the sections headed "*The Pearl Scheme*", "*The PGL Pension Scheme*" and "*The Abbey Life Pension Scheme*" in Part IV ("*Business Overview of the Group*") of this document.

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

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

The most recent triennial valuation for the Pearl Scheme as at 30 June 2015 was completed in September 2016. This showed a deficit of £300 million on the agreed technical provisions basis as at 30 June 2015. The trustees of the Pearl Scheme and Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited, "**PGH2**") entered into a revised pensions funding agreement on 27 November 2012 (the "**2012 Pensions Agreement**") under which the trustees agreed the technical provisions basis to be used for each triennial valuation and agreed the contributions payable to the scheme. Under this agreement PGH2 will pay contributions of £40 million per annum until 2021. The key terms of the 2012 Pensions Agreement are summarised in paragraph 12.1.7 ("*The Pearl Scheme Agreements*") of Part XV ("*Additional Information*") of this document.

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

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

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

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

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

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

Third Parties and other counterparties

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

The Group relies predominantly on outside third party asset management firms to manage its assets (in particular, following Completion, Standard Life Aberdeen). Members of the Group enter into investment management agreements when they appoint third party asset management firms to manage their assets. Such investment management agreements typically contain provisions relating to performance conditions, the breach of which can permit the early withdrawal of assets from third party asset managers. The Group only enters into third party asset management relationships with firms which the relevant directors believe have the know-how, expertise and business models appropriate for the provision of asset management services to the Group. The Group aims to maintain effective systems and controls for third party asset management firms in compliance with the Group's ongoing obligations. However, there can be no assurance that such provisions would be successful in seeking to avoid or reduce the potential effects of underperformance by third party asset management firms.

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

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

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

Certain Group companies outsource almost all of their key customer service, policy administration, accounts collection, human resource payroll and administration functions under formal outsourcing arrangements. The Group only enters into outsourcing relationships with firms which the Directors believe have the know-how, expertise and business models that put such services at the core of their offerings. The Group, aims to maintain effective systems and controls for outsource providers in compliance with the Group's ongoing obligations. However, there can be no assurance that such systems and controls will be completely successful in seeking to avoid, or reduce the potential effects of, underperformance. In particular, while the outsourcing relationships are carefully monitored,

underperformance may also result in breaches of applicable law and regulation, which could result in regulatory intervention. There is also a risk that the providers will not be able to keep up with the pace of legal and/or regulatory change, in which case the Group's operations may become non-compliant.

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

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

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

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

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

The insurers within the Group seek, through reinsurance with third parties, to transfer risk to reinsurers (and, in particular, in relation to the Phoenix Life Companies and the Acquisition Life Companies, mortality, longevity and morbidity risk) that can cause unfavourable outcomes to its business. As a result, the Group has substantial exposure to reinsurers through reinsurance (or retrocession) arrangements in relation to the Phoenix Life Companies and the Acquisition Life Companies. Under these arrangements, reinsurers assume all or a portion of the costs, losses and expenses associated with the reinsured (or retroceded) policies' claims and reported and unreported losses in exchange for a premium, or as part of a sale arrangement. However, the Phoenix Life Companies and the Acquisition Life Companies generally remain liable as the direct insurer (or reinsurer) on all risks reinsured (or retroceded). Consequently, reinsurance arrangements do not

eliminate the Group companies' obligation to pay claims. The Group companies are subject to reinsurer credit risk with respect to its ability to recover amounts due from reinsurers. Even where the reinsurer has an obligation to put up collateral in support of its operations, there can be no certainty that such collateral will satisfy the full amount of the Group's liabilities.

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

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

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

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

On 1 July 2014, the Group announced the completion of the divestment of Ignis Asset Management ("**Ignis**"). The divestment agreement contains certain warranties and indemnities in favour of Standard Life Investments (Holdings) Limited ("**Standard Life Investments**"). In addition, in the divestment agreement, the Company agreed with Standard Life Investments that it will guarantee the payment obligations of Impala under that agreement, including indemnities given by Impala to Standard Life Investments and Impala's obligations in respect of any purchase price adjustment referred to below. The extent to which the Group will be required in the future to incur costs under any of these warranties, agreements or indemnities is not predictable and, if the Group should incur such costs, these costs may have an adverse effect on the Group's business, results, financial condition and prospects.

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

If Completion occurs, then the purchase price adjustment mechanism will be modified such that it will: (i) be extended to apply for a ten-year period from Completion; (ii) be expanded to apply to withdrawals of certain additional Group assets managed by Standard Life Aberdeen; and (iii) use a different agreed run-off profile to the Ignis purchase price adjustment. In addition, the notional fees

which would have been paid in respect of withdrawn assets will be determined by reference to the highest management fee paid for such assets in the three years preceding the withdrawal (instead of a pre-determined fee profile). As with the Ignis purchase price adjustment, where the mandate for new assets acquired by the Group is awarded to a Standard Life Aberdeen subsidiary, any purchase price adjustments due in a year under the revised purchase price agreement shall be reduced by the value of the fees paid to a Standard Life Aberdeen subsidiary in that year. Where a purchase price adjustment is due, adjustments will be made to the consideration paid by the Company in respect of the Acquisition.

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

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

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

On 5 June 2015, PA (GI) Limited ("**PA (GI)**") was subject to a judgment in the Chancery Division of the Companies Court. The judgment directed that PA (GI) is liable to the claimants for mis-selling complaints and claims relating to a book of creditor insurance business that PA (GI) underwrote until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to these complaints. PA (GI) has paid a total of £20 million in respect of such complaints and claims, including associated costs of administering the claims, as at 31 December 2017 and has recognised an accounting provision in this regard of £40 million as at 31 December 2017. In the year ended 31 December 2017, a £21 million increase in the provision for claims was recognised.

The FCA has introduced a deadline for creditor insurance claims of August 2019. The FCA has also commenced a publicity campaign, the purpose of which is to ensure persons with a right of claim are aware of their rights prior to the deadline. Until that deadline has passed, the Company is unable to confirm its maximum exposure in respect of this matter. The campaign is likely to increase the number of complaints for which PA (GI) may have to pay redress. Such an increase could result in the total additional liability of the Group in respect of these complaints and claims being in excess of the £40 million for which provision has been made in the Company's financial statements as at 31 December 2017.

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

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

Indebtedness

The Group could be materially adversely affected by its indebtedness.

The total principal amount outstanding under the 2027 Notes, the 2022 Notes, the Senior Bonds, the Subordinated Bonds, the PLL Tier 2 Bonds and the Revolving Credit Agreement as at 31 December 2017 was £1,585 million (with the principal of the 2027 Notes included at the swapped rate of £385 million).

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

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

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

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

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

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

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

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

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

Taxation

Changes in taxation law may adversely impact the Group.

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 the impact of future changes in UK and overseas tax law on its business. From time to time, changes in the interpretation of existing UK and overseas tax laws, amendments to existing tax rates, changes in the practice of tax authorities, or the introduction of new tax legislation in the UK or overseas may adversely impact the Group's business, results, financial condition and prospects.

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

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

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

The design of long-term products takes into account, among other things, risks, benefits, charges, expenses, investment returns (including bonuses) and taxation. Policyholders may seek legal redress where a product fails to meet their reasonable expectations. An adverse outcome of such litigation and reputational damage arising out of such litigation could have a material adverse effect on the Group's business, results, financial condition and prospects.

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

Group companies currently do not pay significant amounts of VAT in respect of services they receive under their outsourced services agreements for policy administration. If the amount of VAT payable were to increase then this would increase the Group's costs to the extent that the relevant agreements did not contain adequate protection against VAT being charged or increased. VAT charged on goods and services is largely irrecoverable for financial services groups such as the Group.

Services supplied under the outsourced services agreements are largely exempt from VAT under the UK's insurance intermediaries' exemption. The Court of Justice of the European Union (the "**CJEU**") has considered the scope of the insurance intermediaries' exemption in a number of cases, most recently in March 2016, and ruled that certain types of outsourced insurance services were subject to VAT. The UK's interpretation of the insurance intermediaries' exemption is out of step with these judgments. However, the UK government has historically been supportive of a wider exemption. It remains to be seen how the impact from Brexit, during transition and thereafter, will affect this view and the applicability of such CJEU decisions. If any such changes are effected, this may lead to the conclusion that certain services under the Group's outsourced services agreements for policy administration would be treated as subject to VAT. Although certain of the outsourced services agreements have a measure of protection against such changes, since VAT is largely irrecoverable by the Group, such treatment could have a material adverse effect on the Group's business, results, financial condition and prospects.

RISKS RELATING TO THE RIGHTS ISSUE AND AN INVESTMENT IN THE SHARES

The price of the Nil Paid Rights, the Fully Paid Rights, the Shares and/or the Depositary Interests could be subject to significant fluctuations.

The market price of the Nil Paid Rights, the Fully Paid Rights, the Shares and/or the Depositary Interests could be subject to significant fluctuations due to a change in sentiment in the market regarding the Nil Paid Rights, the Fully Paid Rights, the Shares and/or the Depositary Interests (or securities similar to them), including, in particular, in response to various facts and events, such as any regulatory changes affecting the Group's operations, variations in the Group's operating results

and/or business developments of the Group and/or its competitors. Stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Group's operating results and prospectus from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Nil Paid Rights, the Fully Paid Rights, the Shares and/or the Depositary Interests.

There may not be an active trading market for the Nil Paid Rights, the Fully Paid Rights, the New Shares or the New Depositary Interests.

Application will be made to admit the New Shares (nil and fully paid) to trading on the LSE's main market for listed securities. It is expected that dealings in rights to subscribe for the New Shares on the LSE's main market for listed securities will commence at 8.00 a.m. on 26 June 2018. There can be no assurance, however, that an active trading market in the Nil Paid Rights, the Fully Paid Rights, the New Shares or the New Depositary Interests will develop upon or following Admission. In addition, because the trading price of the Nil Paid Rights depends on the trading price of the Shares, the price of the Nil Paid Rights may be volatile and subject to the same risks as noted above. The existing volatility of the Shares may also magnify the volatility of the Nil Paid Rights.

Shareholders who do not acquire New Shares and/or New Depositary Interests in the Rights Issue will experience dilution in their ownership of the Company.

If a Shareholder does not respond to the Rights Issue by 11.00 a.m. on 9 July 2018, the expected latest time and date for acceptance and payment in full for that Shareholder's provisional allotment of New Shares and/or New Depositary Interests, that Shareholder's Nil Paid Rights to subscribe for New Shares and/or New Depositary Interests will lapse and the Company has made arrangements under which the Banks, within the two Business Day period following the expiration of the latest time and date for acceptance and payment, will endeavour (as agents of the Company) to find subscribers for New Shares and/or New Depositary Interests not taken up by Shareholders. If, however, the Banks are unable to find subscribers for such New Shares and/or New Depositary Interests or are unable to achieve a specified premium over the Issue Price and the related expenses of procuring such subscribers, Shareholders will not receive any consideration for the Nil Paid Rights they have not taken up.

If Shareholders, including Shareholders in the US and other jurisdictions where their participation is restricted for legal, regulatory and other reasons, do not take up the offer of New Shares and/or New Depositary Interests under the Rights Issue, their proportionate ownership and voting interests in the Company will be reduced and the percentage that their shares will represent of the total share capital of the Company will be reduced accordingly. Even if a Shareholder elects to sell his unexercised Nil Paid Rights, or such Nil Paid Rights are sold on his behalf, the consideration he receives may not be sufficient to compensate him fully for the dilution of his percentage ownership of the Company's share capital that may be caused as a result of the Rights Issue. Shareholders who do not take up their entitlements to New Shares (whether directly or through New Depositary Interests) will have their proportionate shareholdings in the Company diluted by approximately 31.8 per cent.

Shareholders will experience dilution in their ownership following the issuance of the Acquisition Shares in connection with the Acquisition.

If the Acquisition completes, Shareholders will suffer a reduction of up to approximately 19.99 per cent. in their proportionate ownership and voting interest in the Company as represented by their holding of Shares immediately following Re-admission, even if they take up their full rights under the Rights Issue, as a result of the issuance of the Acquisition Shares by Phoenix to Standard Life Aberdeen. It is possible that Phoenix may decide to offer additional Shares in the future either to raise capital for future acquisitions or for other purposes. If Shareholders do not purchase a proportionate amount of such Shares or were not eligible to participate in such an offering, their proportionate ownership and voting interests in Phoenix would be reduced and the percentage that their Shares would represent of the total share capital of Phoenix would be reduced accordingly.

Issuances of a substantial number of Acquisition Shares in connection with the Acquisition and future issuances of Shares may adversely affect the market price of the Shares.

Issuance of the Acquisition Shares in connection with the Acquisition and future issuances of Shares may adversely affect the market price of the Shares. It is possible that Phoenix may decide to offer

additional Shares in the future either to raise capital for further acquisitions or for other purposes. An additional offering, or significant sales of Shares by major Shareholders, or the perception that such sales could occur, could increase volatility of, and could also have a material adverse effect on, the market price of the Shares.

Standard Life Aberdeen will be issued a significant interest in Phoenix on Completion and its interests may differ from those of other Shareholders.

On Completion, Standard Life Aberdeen will directly (in addition to its indirect shareholding as a result of its investment management business) own a strategic stake of approximately 19.99 per cent. of the Shares of the Enlarged Group (assuming the issuance of 144,106,049 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Group's Long-Term Incentive Plan ("**LTIP**"), the Sharesave Scheme, the Share Incentive Plan ("**SIP**") and the Deferred Bonus Share Scheme (the "**DBSS**") (together, the "**Employee Share Schemes**") are exercised between the Latest Practicable Date and Completion). As a result, Standard Life Aberdeen may, following Completion, possess voting power sufficient to have significant influence over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions.

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

Phoenix and Standard Life Aberdeen have entered into a relationship agreement to regulate their relationship following Completion (the "**Relationship Agreement**"). Pursuant to the Relationship Agreement, for so long as Standard Life Aberdeen and its subsidiary undertakings (excluding any member of the Group) holds: (i) at least 15 per cent. of the Shares, Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) two non-executive directors to the Board; and (ii) at least 10 per cent. of the Shares (but less than 15 per cent.), Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) one director to the Board. For the purpose of these calculations, any Shares held by Standard Life Aberdeen for the purposes of providing asset management services shall be excluded, unless expressly stated otherwise. Notwithstanding that Standard Life Aberdeen has entered into the Relationship Agreement, the interests of Standard Life Aberdeen may not always be aligned with those of other Shareholders and it may, from Completion and for so long as it retains a substantial shareholding, have significant influence over all matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions. In addition, Standard Life Aberdeen may hold interests in, or may make acquisitions of or investments in, other businesses that may be, or may become, competitors of the Enlarged Group.

For further information on the principal terms of the Relationship Agreement, see paragraph 9 ("*Principal Terms of the Relationship Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

Shareholders outside the UK may not be able to subscribe for New Shares and/or New Depositary Interests in the Right Issue.

In the case of an allotment of Shares for cash, Shareholders have certain pre-emption rights unless those rights are disapplied by a special resolution of the Shareholders at a general meeting and such an issue could dilute the interests of the then-existing Shareholders. Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Shareholders in the Rights Issue. In particular, Shareholders who are located in the US may not be able to exercise their pre-emption rights unless a registration statement under the US Securities Act is effective with respect to such rights or an exemption from the registration requirements is available thereunder. The Rights Issue will not be registered under the US Securities Act. Securities laws of certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out by the Company. Qualifying Shareholders who have a registered address in or who are resident in, or who are citizens of, countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their Nil Paid Rights or to acquire Fully Paid Rights, New Shares or New Depositary Interests.

Re-admission may not occur when expected.

It is expected that Admission (nil paid) will become effective on 26 June 2018 and that dealings in the New Shares (nil paid) on the LSE will commence as soon as practicable after 8.00 a.m. on that date. Further applications will be made to the UKLA for the Shares to be re-admitted to the premium listing segment of the Official List and to the LSE for the Shares to be re-admitted to trading on the LSE's main market for listed securities following Completion. Re-admission is subject to the approval (subject to satisfaction of any conditions which are attached to such approval) of the UKLA. There can be no guarantee that any conditions to which Re-admission is subject will be met or that the UKLA will approve Re-admission.

IMPORTANT INFORMATION

Cautionary note regarding forward-looking statements

This document 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 document and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's business, results of operations, financial position, prospects, dividends, growth, strategies and the asset management business.

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

- the Acquisition being made subject to additional conditions or failing to proceed at all;
- the Enlarged Group failing to realise the expected benefits of the Acquisition, including anticipated synergies;
- management of the Company being distracted or overstretched by the process of integrating and managing the Enlarged Group;
- risks stemming from the economy and the performance of financial markets generally;
- changes in the legal and regulatory environment in which the Group operates;
- the FCA, the PRA or other regulators intervening in the Group's business on industry-wide issues or conducting thematic reviews;
- restrictions on the ability to pay dividends, or a failure to pay dividends according to the Group's dividend policy;
- changes in regulatory capital requirements;
- changes in accounting standards or in actuarial assumptions;
- risk management policies and procedures being ineffective;
- further contributions, in addition to those already agreed, being required to be made to the Group's defined benefit pension schemes;
- third party asset management firms that manage the Group's assets underperforming or difficulties arising from the Group's outsourcing relationships;
- the Group failing to maintain the availability of its systems and to safeguard the security of its data;
- third party reinsurers being unwilling or unable to meet their obligations under reinsurance contracts;
- legal and arbitration proceedings;
- the level of the Group's indebtedness;
- changes in taxation law, including future changes in the tax legislation affecting specific products offered by the Group and changes to the VAT rules; and
- other factors discussed in the section of this document headed "*Risk Factors*".

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this document reflect the Group's current view with respect to future events and

are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial condition, prospects, dividends, growth, strategies and the asset management business. Investors should specifically consider the factors identified in this document, which could cause actual results to differ, before making an investment decision. Subject to the requirements of the Listing Rules, the Prospectus Rules, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (the "**Market Abuse Regulation**") and the Disclosure Guidance and Transparency Rules produced by the FCA and forming part of the book and rules and guidance maintained by the FCA (the "**FCA Handbook**"), the Company undertakes no obligation publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this document.

Presentation of financial information

Capitalisation and indebtedness information for the Group and Standard Life Assurance in this document and other financial information, unless otherwise stated, has been extracted without material adjustment from (i) the Company's Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015 which are incorporated by reference as described in Part XVI ("*Documents Incorporated by Reference*") of this document and (ii) the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 contained in Part IX ("*Financial Information of Standard Life Assurance*"), respectively. Where information has been extracted from the audited consolidated financial statements of the Group or the combined historical financial information of Standard Life Assurance, as the case may be, the information is audited unless otherwise stated.

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

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

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

Pro forma financial information

In this document, any reference to "unaudited pro forma information" is to information which has been extracted without material adjustment from the unaudited pro forma IFRS financial information contained in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") and the unaudited pro forma Solvency II information contained in Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document.

The unaudited pro forma IFRS income statement and unaudited pro forma statement of IFRS net assets of the Enlarged Group (together, the "**Unaudited Pro Forma IFRS Financial Information**") contained in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") of this document have been prepared for illustrative purposes only in accordance with Annex II of Commission Regulation (EC) No 809/2004 (the "**PD Regulation**") and on the basis of the notes set out therein. The unaudited pro forma IFRS income statement has been prepared to illustrate the effect on the earnings of the Company as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments had taken place on 1 January 2017. The unaudited pro forma statement of IFRS net assets has been prepared to illustrate the effect on the net assets of the Company as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments had taken place on 31 December 2017. The Unaudited Pro

Forma IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company's or the Enlarged Group's actual financial position or results. The Unaudited Pro Forma IFRS Financial Information is stated on the basis of the accounting policies adopted by the Company in preparing its consolidated financial statements for the year ended 31 December 2017.

The unaudited pro forma statement of Group Solvency II Surplus of the Enlarged Group (the "**Unaudited Pro Forma Solvency Information**") contained in Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document has been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The Unaudited Pro Forma Solvency Information has been prepared to illustrate the effect on the group solvency position at the level of Phoenix as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments had taken place on 31 December 2017. The Unaudited Pro Forma Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company or the Enlarged Group's actual financial position, results or solvency position. The Unaudited Pro Forma Solvency Information is stated on the basis of Solvency II reporting expected to be applied by the Company for the year ending 31 December 2018.

Presentation of certain key performance indicators and targets

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

- ***Solvency II Own Funds***: Solvency II Own Funds are the aggregate of "basic Own Funds" (assets an insurer has on its balance sheet) and "ancillary Own Funds" (off-balance sheet resources that are loss absorbent, for example, unpaid share capital). All such assets are subject to eligibility criteria and weighting, as determined by reference to Articles 93 to 95 of Solvency II as well as to Articles 69 to 73, 76, 77, 79 and 82 of Commission Delegated Regulation (EU) 2015/35, as interpreted by the European Insurance and Occupational Pension Authority's ("**EIOPA**") "Guidelines on Own Funds" (BoS-14/168 EN). References to the Own Funds of a particular entity are references to the Own Funds held by an entity, whereas references to the Group's Own Funds, or the Enlarged Group's Own Funds, are references to the Own Funds within the scope of the Solvency II group.
- ***Solvency Capital Requirement ("SCR")***: This is the standard Own Funds level that a UK life insurer is required to maintain by the PRA. A separate calculation also applies to Solvency II groups. SCR is determined by reference to a basic standard formula set out in Articles 103-111 of Solvency II, however, a life insurer may agree an amendment to the standard formula to create a bespoke calculation which more accurately reflects the risks applicable to that life insurer, that amendment is achieved by way of an Internal Model. Own funds held to meet the SCR requirement (and any additional amendment or add-on approved by the PRA) are also referred to as "regulatory capital" and any reference to an increase or decrease in a regulatory capital requirement is a reference to an increase or decrease in the amount of regulatory capital an entity has to hold. The amount by which an SCR requirement is exceeded by Own Funds is referred to as the "Solvency II Surplus".
- ***Solvency II Shareholder Capital Coverage Ratio ("Shareholder Capital Coverage Ratio")***: This is the ratio of Solvency II Own Funds to SCR, excluding Solvency II Own Funds and SCR of unsupported with-profit funds and the PGL Pension Scheme. Unsupported with-profit funds and the PGL Pension Scheme refer to those funds whose Solvency II Own Funds exceed their SCR. Where a with-profit fund or Group pension scheme has insufficient Solvency II Own Funds to cover its SCR, its Solvency II Own Funds and SCR are included within the Shareholder Capital Coverage Ratio calculation.
- ***Cashflows from the Acquisition 2018 to 2022***: These are equal to the net cashflows expected to be remitted by Standard Life Assurance to the Holding Companies, aggregated for the years 2018 to 2022.
- ***Cashflows from the Acquisition for 2023 onwards***: These are equal to the net cashflows expected to be remitted by Standard Life Assurance to the Holding Companies, aggregated for the years from 2023 onwards.

- ***Assets under management ("AUM")***: These are assets managed by the Group and held: (i) in respect of actual or anticipated liabilities to policyholders under a policy; or (ii) on behalf of policyholders under the terms of a policy.
- ***Holding Companies cash***: This represents the cash and cash equivalents held in the Holding Companies and available to be used to meet future corporate expenses, pension scheme funding requirements, debt servicing and repayments, and the payment of shareholder dividends.

Currencies

In this document and the information incorporated by reference into this document: (i) references to "£", "pounds sterling" or "GBP" are to the lawful currency of the United Kingdom; (ii) references to "USD", "US dollars", "US$", "$US", "US¢" or "cents" are to the lawful currency of the United States; and (iii) references to "Euro", "euro" or "€" are to the euro, the lawful currency of the member states of the EU that adopted the Euro in Stage Three of the Treaty establishing the Economic and Monteary Union on 1 January 1999.

No profit forecast

No statement in this document is intended as a profit forecast and no statement in this document should be interpreted to mean that earnings per Share for the current or future financial years would necessarily match or exceed the historical published earnings per Share.

Notice to investors in the United States of America

Neither this document nor the Provisional Allotment Letter constitutes, or will constitute, or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, New Shares, New Depositary Interests, Nil Paid Rights and/or Fully Paid Rights to any Shareholder with a registered address in, or who is resident in, the United States. If you are in the US, you may not exercise your Nil Paid Rights or Fully Paid Rights and/or acquire any New Shares and/or New Depositary Interests offered hereby. The Nil Paid Rights, the Fully Paid Rights, the New Shares and/or the New Depositary Interests being offered outside the US are being offered in reliance on Regulation S under the US Securities Act solely to non-US persons.

Any envelope containing a Provisional Allotment Letter and post-marked from the US will not be valid. Any Provisional Allotment Letter in which the exercising holder requests New Shares to be issued in registered form and gives an address in the US will not be valid.

The payment paid in respect of Provisional Allotment Letters and post-marked from the US will be returned without interest.

Any person in the US who obtains a copy of this document is required to disregard it.

Overseas territories other than the Excluded Territories

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, all countries other than the UK (other than the Excluded Territories) should refer to paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

Volcker Rule

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

The Company may be treated as a "covered fund" under the Volcker Rule. If the Company is treated as a "covered fund" under the Volcker Rule, then in the absence of an exemption or regulatory relief, the provisions of the Volcker Rule and its related regulatory provisions may limit the ability of "banking entities" to hold an ownership interest in the Company or enter financial transactions with the Company.

Each prospective investor in the New Shares is required to independently consider the potential impact of the Volcker Rule in respect of any investment in the New Shares. To the extent that

investment by banking entities in the New Shares is prohibited or restricted by the Volcker Rule, this may impair the marketability and liquidity of the New Shares.

Currency exchange rate information

Unless otherwise indicated, the financial information contained in this document has been expressed in pounds sterling. The functional currency of the Company is pounds sterling, as is the reporting currency of the Group. Transactions not already measured in pounds sterling have been translated into pounds sterling in accordance with the relevant provisions of International Accounting Standard 21. On consolidation, income statements of subsidiaries for which pounds sterling are not the functional currency are translated into pounds sterling, the presentation currency for the Company, at average rates of exchange. Balance sheet items are translated into pounds sterling at period-end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into pounds sterling at the rate indicated, at any other rate or at all.

***Indicative exchange rates of the pound sterling against the euro*[(1)]**

Period	Period-end	Average	High	Low
2015	1.3571	1.3753	1.4103	1.3532
2016	1.1731	1.2242	1.3654	1.0967
2017	1.1260	1.1416	1.1967	1.0790

Note:

(1) Source: Bloomberg Historical Exchange Rate Chart.

As at 5:00 p.m. on 29 May 2018 (being the last Business Day prior to the announcement of the terms of the Rights Issue), the exchange rate of the pound sterling against the euro was £1.00 : €1.1472.

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

Enforcement of civil liabilities

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a company incorporated as an exempted company with limited liability under the laws of the Cayman Islands. The rights of holders of Existing Shares are governed by Cayman Islands law and by the Articles. These rights may differ from the rights of shareholders in certain UK and non-UK corporations.

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors and the Company's executive officers. The majority of the Directors and executive officers are residents of the United Kingdom. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors and the Company's executive officers within the Overseas Shareholder's country of residence. In addition, it may not be possible to enforce against the Directors and the Company's executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the United Kingdom against the Directors or the Company's executive officers who are residents of the United Kingdom or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or the Company's executive officers in any original action based solely on the foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

SHARE CAPITAL AND RIGHTS ISSUE STATISTICS

Rights Issue

Price per New Share	518 pence
Basis of Rights Issue	7 New Shares for every 15 Existing Shares
Number of Shares in issue at the date of this document	393,262,255
Number of New Shares to be issued by the Company[(1)]	183,522,385
Number of Shares in issue immediately following completion of the Rights Issue[(1)(2)]	576,784,640
New Shares as a percentage of the Enlarged Share Capital immediately following completion of the Rights Issue[(2)]	31.8 per cent.
Estimated net proceeds receivable by the Company after expenses incurred in connection with the Rights Issue	£937 million

Notes:

(1) Calculated as at 23 February 2018 (being the date of announcement of the Acquisition) on the basis of the number of Shares in issue as at such date.

(2) Assuming completion of the Rights Issue and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and completion of the Rights Issue.

Acquisition

Number of Acquisition Shares to be issued	Up to 144,106,049
Number of Shares in issue immediately following Re-admission[(1)]	720,890,689
Acquisition Shares as a percentage of the Enlarged Share Capital immediately following Completion[(1)]	19.99 per cent.

Note:

(1) Assuming completion of the Rights Issue, the issuance of 144,106,049 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion.

Total

New Shares and Acquisition Shares in aggregate as a percentage of the Enlarged Share Capital immediately following Completion[(1)]	45.4 per cent.

Note:

(1) Assuming the issuance of 144,106,049 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following dates assume the satisfaction of the conditions to Completion set forth in the Share Purchase Agreement by the Long Stop Date (other than those conditions that are intended to be satisfied at or shortly prior to Completion) but are indicative only and subject to change.

	2018[1][2]
Announcement of the Acquisition	23 February
Publication and posting of this document, the Notice of General Meeting, the Form of Proxy and the Form of Instruction	30 May
Latest time and date for receipt of General Meeting Forms of Instruction.	11.00 a.m. on 21 June
Latest time and date for receipt of General Meeting Forms of Proxy	11.00 a.m. on 22 June
Rights Issue Record Date	6.00 p.m. on 22 June
Standard Life Aberdeen general meeting	11.00 a.m. on 25 June
General Meeting	**11.00 a.m. on 25 June**
Despatch of Provisional Allotment Letters (to Qualifying Non-CREST Shareholders only[3])	25 June
Admission	8.00 a.m. on 26 June
Dealings in New Shares, nil paid, commence on the LSE	**8.00 a.m. on 26 June**
Special Dealing Service open for applications	8.00 a.m. on 26 June
Shares marked "ex-rights"	8.00 a.m. on 26 June
Nil Paid Rights credited to stock accounts in CREST (Qualifying Depositary Interest Holders only)	As soon as practicable after 8.00 a.m. on 26 June
Nil Paid Rights and Fully Paid Rights enabled in CREST	As soon as practicable after 8.00 a.m. on 26 June
Latest time and date for requesting Cashless Take-up or disposal of rights using the Special Dealing Service	3.00 p.m. on 3 July
Recommended latest time for requesting withdrawal of Nil Paid Rights or Fully Paid Rights from CREST (i.e., if your Nil Paid Rights or Fully Paid Rights are in CREST and you wish to convert them into certificated form)	4.30 p.m. on 3 July
Recommended latest time and date for depositing renounced Provisional Allotment Letters, nil paid or fully paid, into CREST or for dematerialising Nil Paid Rights into a CREST stock account	3.00 p.m. on 4 July
Latest time and date for splitting Provisional Allotment Letters, nil paid or fully paid	3.00 p.m. on 5 July
Latest time and date for acceptance and payment in full and registration of renounced Provisional Allotment Letters	**11.00 a.m. on 9 July**
Results of the Rights Issue to be announced through a Regulatory Information Service	By 8.00 a.m. on 10 July
Dealings in New Shares, fully paid, commence on the LSE	**8.00 a.m. on 10 July**
New Depositary Interests credited to CREST stock accounts (uncertificated holders only[3]) and dealings in the New Shares to commence on the LSE fully paid	As soon as practicable after 8.00 a.m. on 10 July
Expected dated of despatch of definitive share certificates for New Shares in certificated form (to Qualifying Non-CREST Shareholders only[3])	By 16 July
Latest time and date for dealings in the Shares	4.30 p.m. on the date prior to the date of Completion
Expected date of Completion	On or before 31 December (but not before 31 August)
Cancellation of listing of the Shares	Immediately prior to 8.00 a.m. on the date of Completion
Re-admission	8.00 a.m. on the date of Completion

Notes:

(1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document, by announcement through a Regulatory Information Service, and in the Provisional Allotment Letter may be adjusted by the Company, in which event details of the new dates will be notified to the UKLA and to the LSE and, where appropriate, to Shareholders.

(2) References to times in this document are to London time unless otherwise stated.

(3) Subject to certain restrictions relating to Overseas Shareholders. See paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Board of Directors

A list of the members of the Company's Board of Directors is set forth in the table below.

Name	Current position at Phoenix
Henry Staunton	Chairman and Nomination Committee Chairman
Clive Bannister	Group Chief Executive Officer
James McConville	Group Finance Director
Alastair Barbour	Senior Independent Non-Executive Director and Audit Committee Chairman
Karen Green	Independent Non-Executive Director
Wendy Mayall	Independent Non-Executive Director
John Pollock	Independent Non-Executive Director and Risk Committee Chairman
Belinda Richards	Independent Non-Executive Director
Nicholas Shott	Independent Non-Executive Director
Kory Sorenson	Independent Non-Executive Director and Remuneration Committee Chairman

The business address of each of the Directors is Juxon House, 100 St. Paul's Churchyard, London EC4M 8BU.

Group Company Secretary:	Gerald Watson
Registered office:	c/o Maples Corporate Services Limited Po Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Principal place of business of the Company:	Juxon House 100 St Paul's Churchyard London EC4M 8BU United Kingdom
Sponsor, Global Coordinator and joint financial adviser to the Company:	HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom
Global Coordinator and joint financial adviser to the Company:	Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom
Global Coordinator:	J.P. Morgan Securities plc 25 Bank Street London E14 5JP United Kingdom
Bookrunner:	BNP PARIBAS 16, boulevard des Italiens 75009 Paris France
Auditors to the Company:	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom

Reporting accountant:	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom
Legal advisers to the Company as to English law:...	Skadden, Arps, Slate, Meagher & Flom (UK) LLP 40 Bank Street Canary Wharf London E14 5DS United Kingdom
Cayman Islands legal advisers to the Company:..	Walkers 190 Elgin Avenue George Town Grand Cayman KY1-9001 Cayman Islands
Legal advisers to the Joint Global Coordinators as to English law:	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG United Kingdom
Registrar:..	Computershare Investor Services (Cayman) Limited Windward 1 Regatta Office Park PO Box 897 Grand Cayman KY1-1103 Cayman Islands
Depositary and Receiving Agent:	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZY United Kingdom

PART I—LETTER FROM THE CHAIRMAN OF PHOENIX GROUP HOLDINGS

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Henry Staunton, Chairman
Clive Bannister, Group Chief Executive Officer
Jim McConville, Group Finance Director
Alastair Barbour, Senior Independent Non-Executive Director
Karen Green, Non-Executive Director
Wendy Mayall, Non-Executive Director
John Pollock, Non-Executive Director
Belinda Richards, Non-Executive Director
Nicholas Shott, Non-Executive Director
Kory Sorenson, Non-Executive Director

Registered Office:
c/o Maples Corporate
Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

30 May 2018

PROPOSED ACQUISITION OF STANDARD LIFE ASSURANCE AND FULLY UNDERWRITTEN RIGHTS ISSUE

Dear Shareholder,

1. INTRODUCTION

On 23 February 2018, Phoenix Group Holdings (the "**Company**" and, together with its subsidiaries from time to time, the "**Group**") announced the proposed acquisition of Standard Life Assurance Limited ("**SLAL**") (to include Vebnet (Holdings) Limited and exclude certain subsidiaries of SLAL following a pre-Completion restructuring) ("**Standard Life Assurance**") from Standard Life Aberdeen plc ("**Standard Life Aberdeen**") (the "**Acquisition**"), in consideration for which Standard Life Aberdeen will take an approximately 19.99 per cent. stake in the Enlarged Group and Phoenix will pay a total cash consideration of £1,971 million upon Completion (excluding a dividend of £312 million paid by SLAL to Standard Life Aberdeen prior to Completion), subject to certain customary adjustments.

As part of the Acquisition, the Company and Standard Life Aberdeen will extend and enhance their existing long-term strategic partnership, including whereby:

(i) Standard Life Aberdeen will have the right upon Completion to appoint: (a) two directors to the Board (for so long as Standard Life Aberdeen and its subsidiary undertakings (excluding any member of the Group) holds at least 15 per cent. of the Shares); and (b) one director to the Board (for so long as Standard Life Aberdeen and its subsidiary undertakings (excluding any member of the Group) holds at least 10 per cent. of the Shares (but less than 15 per cent.));

(ii) Standard Life Aberdeen will remain the asset manager for Standard Life Assurance and the existing arrangements between the parties under which Standard Life Aberdeen manages assets for Phoenix will be extended; and

(iii) Standard Life Aberdeen and Phoenix will, upon Completion, enter into a client service and proposition agreement (the "**Client Service and Proposition Agreement**") leveraging the respective capabilities of both partners and Aberdeen Standard Investments will, where appropriate, provide asset management services. This provides an organic growth opportunity to the Enlarged Group from future fee revenue on the new business.

For further details of the agreements that constitute the strategic partnership, see paragraph 9 ("*Principal Terms of the Acquisition and the Strategic Partnership*") of this letter.

The Company proposes to finance the cash consideration of £1,971 million using the net proceeds of the Rights Issue of approximately £937 million and the net proceeds of the RT1 Notes of approximately £495 million, with the remaining cash consideration financed from up to £900 million

of undrawn commitments under the Revolving Credit Agreement, up to £600 million of undrawn commitments under the Acquisition Facility Agreement and up to £250 million of own cash resources. As further described below and in Part V ("*Business Overview of Standard Life Assurance*") of this document, Standard Life Assurance will include Standard Life Aberdeen's UK and European life insurance businesses but will not include Standard Life Aberdeen's UK retail platforms and advice business. Standard Life Assurance is a leading provider of long-term savings and investment propositions. It is primarily based in the UK, with further operations through branches in Ireland and Germany. As at 31 December 2017, Standard Life Assurance had approximately 4.8 million policyholders and £166 billion of AUA.

The purpose of this letter is to: (i) explain the background to, and reasons for, the Acquisition and the Rights Issue; (ii) explain why the Directors believe that the Acquisition is in the best interests of the Company and its Shareholders as a whole; (iii) set out the terms and conditions of the Rights Issue; and (iv) recommend that you vote in favour of the Resolutions relating to the Acquisition and the Rights Issue to be proposed at the General Meeting. In this respect, this document should be read in its entirety and you should not rely solely on the information summarised in this letter. Your attention, in particular, is drawn to the risk factors set out in the section of this document headed "*Risk Factors*".

The Board unanimously considers that the Resolutions are in the best interests of the Company and its Shareholders and recommends that Shareholders vote in favour of the Resolutions as the Board has irrevocably undertaken to do in respect of its own shares in the Company.

As a consequence of the Acquisition being classified as a "reverse takeover" under the Listing Rules, the listing of Shares (including the New Shares) on the premium listing segment of the Official List will be cancelled upon Completion. Applications will be made to the UKLA for the Shares to be re-admitted to the premium listing segment of the Official List and to the LSE for re-admission of the Shares to trading on the LSE's main market for listed securities. It is currently expected that Re-admission will become effective following Completion at 8.00 a.m. on the date of Completion (and, in any event, prior to the Long Stop Date), whereupon an announcement will be made by the Company to a Regulatory Information Service.

Based on the closing middle market quotation of a Share as derived from the daily record setting out the price of all trades in shares and other securities conducted on the LSE (the "**Daily Official List**") published by the LSE of 759.5 pence per Share on 22 February 2018 (being the latest Business Day prior to announcement of the Acquisition) (the "**Closing Price**"), the Acquisition Shares were valued at £959 million. After adjustment for the Rights Issue, Standard Life Aberdeen will receive up to 144,106,049 Shares at Completion.

As noted above, and more fully described in paragraph 10 ("*Principal Terms of the Rights Issue*") of this letter, the Company proposes to undertake a rights issue, the net proceeds of which will be used to fund part of the cash consideration for the Acquisition, to raise £937 million by the issue of 183,522,385 New Shares (representing approximately 46.7 per cent. of the existing issued share capital of the Company and, assuming no additional shares are issued by the Company prior to completion of the Rights Issue, approximately 31.2 per cent. of the issued share capital of the Company immediately following completion of the Rights Issue (the "**Enlarged Share Capital**") on a fully diluted basis) through a 7 for 15 Rights Issue at 518 pence per New Share. Resolutions relating to the Acquisition and the Rights Issue will be proposed at the General Meeting. Dealings in the New Shares (nil paid) are expected to commence on 26 June 2018, the first trading day after the approval of the Acquisition by Shareholders at the General Meeting.

The Directors intend to apply the proceeds of the Rights Issue to fund part of the consideration for the Acquisition, together with the associated transaction and acquisition costs. Until Completion, the net proceeds of the Rights Issue will be placed on deposit pending Completion. If Completion does not take place before the Long Stop Date, the Directors intend to retain the net proceeds of the Rights Issue for use within the following 12 months on the general commercial activities of the Group and alternative acquisitions in pursuit of the Group's strategy as a consolidator of closed life and pension funds. Failing this, the Directors will either seek to return the net proceeds of the Rights Issue to shareholders in a tax efficient and practicable manner or seek Shareholders' approval to continue to hold the net proceeds of the Rights Issue for general corporate purposes.

Pursuant to the Rights Issue, the Company has entered into a Sponsor and Underwriting Agreement with the Banks in respect of all the New Shares to be issued, further details of which can be found in paragraph 12.1.17 ("*Sponsor and Underwriting Agreement*") of Part XV ("*Additional Information*") of

this document. In view of the size of the Rights Issue, the Board is seeking your authority at the General Meeting to allot the required number of New Shares and the Acquisition Shares.

2. BACKGROUND AND REASONS FOR THE ACQUISITION AND RIGHTS ISSUE

2.1 Strategy

The Group specialises in the management and acquisition of closed life and pension funds, currently operating primarily in the United Kingdom. The Group is the UK's largest specialist closed life and pension fund consolidator measured by number of policyholders, with approximately 5.6 million policyholders and £74 billion of assets under management as at 31 December 2017. The Group is primarily focused on efficient capital management and the extraction of value through management actions, operational efficiency and optimised financing.

The Group seeks to use its expertise to deliver value for shareholders and improve returns for policyholders and customers, whilst continuing to be recognised as the leading solutions provider for the safe, innovative and profitable decommissioning of closed life funds in the UK. To enable this, the Group's strategy is to:

(i) act as a consolidator of life and pensions books, predominantly those that are closed to new business;

(ii) deploy its specialist skills in operational efficiency, the use of partnerships and outsourcing to reduce costs and improve financial results; and

(iii) apply its expertise in capital management, regulation and other key areas to achieve better outcomes for policyholders and shareholders.

The Group's areas of strategic focus are:

- ***Closed book consolidation***: The Group's principal focus is to be a consolidator of life and pensions books which are predominantly closed to new business. The Directors believe that such books of business are best managed within a specialist scale platform and that existing and anticipated market dynamics will generate a further supply of potentially attractive acquisition targets in the future. These dynamics include the impact of the evolving regulatory framework for financial services companies, such as the implementation of Solvency II and Basel III regulations. In addition, the Directors believe that the opportunity is expected to be supported by ongoing capital pressure within the sector, the trend of life insurers recycling and refocusing capital from mature to growth businesses, the decline in new with-profit business, changing customer demands and regulatory change driving consolidation in the mutual sector. The Directors believe that this opportunity is also supported by the migration of customers to alternative products, creating legacy products and their infrastructure which face cost challenges as the policies run off over time. The management of these books requires specialist skills, particularly in regulation, operational efficiency, capital management, governance and liability customised asset management. To maintain its competitive advantage and create value, the Group develops specialist expertise to identify, pursue and execute suitable opportunities in this space. Given the opportunities and its experience, the Group remains predominantly focused on the UK. However, the Directors also note that there are product and market dynamic similarities with certain continental European life markets, which remain comparatively fragmented, having not gone through a sustained period of life consolidation as has been seen in the UK over the past several years. This should allow for a number of consolidation opportunities both within the UK and European markets in the coming years. Phoenix's operating model is specifically designed for ongoing closed life fund consolidation and the Group is well placed to generate value from further acquisitions. As such, Phoenix continues to actively explore further acquisition opportunities in the closed life sector, which is estimated to be a £540 billion opportunity across the UK, Germany and Ireland. Having recently completed its first bulk purchase annuity transaction with the Trustee of the Marks and Spencer Pension Scheme, Phoenix is also active in the bulk purchase annuity market which is estimated to be a £550 billion opportunity over the next 15 years. In the normal course of business, Phoenix may enter into further acquisitions in the closed life or bulk purchase annuity space in the short term that meet its acquisition criteria, but which are not expected to require Phoenix to raise further funding.

- ***Disciplined approach to M&A***: The Group seeks to make acquisitions consistent with its strategic focus and which are aligned to its acquisition criteria, namely: (i) have a closed life focus; (ii) are value accretive; (iii) support the dividend policy; and (iv) maintain the investment grade rating.
- ***Capital management and management actions***: The effective management of the Group's risks and the efficient allocation of capital against them is critical in allowing the Group to achieve its strategic and operational objectives. The Group's Solvency II Internal Model has been approved by the PRA as part of the Solvency II regime. In addition, the Group seeks to implement certain management actions to enhance its capital position and cashflows, such as fund mergers, strategic asset allocation and de-risking. As the Group grows through acquisitions, the opportunities for capital management and management actions tend to increase.
- ***Realise the benefits of scale***: Acquisitions are important to the Group's model not only to offset the natural decline of a business largely closed to new business, but also to grow the business and create additional value from scale advantages. Increased scale provides the Group with a number of key differentiating features including the ability to drive operational efficiencies and achieve diversification benefits, as well as ultimately enabling further acquisitions. To take advantage of acquisition opportunities, the Group has created a scalable operating model and adopts a disciplined pricing model which is supported by the Group's Solvency II Internal Model.
- ***Operational efficiency***: The Group routinely applies 'The Phoenix Way' to increase operational efficiency through the standardisation and streamlining of key processes, which will in turn reduce costs, improve performance and enhance value. 'The Phoenix Way' characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold. By applying a consistent framework across the Group, the Directors believe that 'The Phoenix Way' reduces risk, complexity and cost; delivers long-term stability of customer service through efficient cooperation with the Group's outsourcing partners; increases Solvency II Own Funds; and releases capital to shareholders. As a result of 'The Phoenix Way', the Group seeks to eliminate unnecessary cost from its business model. In part this is achieved through outsourcing certain administrative tasks to selected third parties. When the Group acquires new books of business, this scalable outsourced model supports the delivery of cost savings. At the same time, the Group seeks to ensure that the quality of service provided to its customers is not adversely impacted by such operational optimisation.
- ***Financing structure***: The Group intends to manage leverage at a level consistent with maintaining an investment grade rating for the Company and the Group's senior and subordinated debt. Debt will be issued at a range of maturities to achieve a balanced maturity profile. Hybrid debt issuance, using the full spectrum of Solvency II-compliant instruments, will be supportive of the Group's robust capital position. Based on the actual position as at 31 December 2017, an issuance of £100 million of hybrid debt would increase the Group's Shareholder Capital Coverage Ratio by approximately 4 per cent. and the regulatory coverage ratio by approximately 2 per cent. Based on the pro forma position assuming that the Acquisition, the Rights Issue and the associated financing (including the issuance of the RT1 Notes) took place on 31 December 2017, a further issuance of £100 million of hybrid debt (beyond that assumed in the pro forma adjustments) would increase the Enlarged Group's Shareholder Capital Coverage Ratio by approximately 2 per cent. and regulatory coverage ratio by approximately 1 per cent.
- ***Improving customer outcomes***: The Group aims to improve customer experiences through its focus on its chosen market, high levels of governance and extensive experience. The Group has three key areas of focus in relation to its customers, namely:

  Value: the Group aims to optimise customer outcomes;

  Service: treating customers fairly, with empathy as well as respect, and all in a timely fashion; and

  Security: ensuring customer investments are secure in a well-managed company.

By focusing on these areas proactively and responsibly, the Directors believe that the Group can create value in the long-term in a highly regulated sector.

- ***Regulatory experience***: The Group's main regulators in the UK are the PRA and the FCA. The Group is aligned with the aims of both regulators, in seeking both to protect customers and their lifetime savings, and to manage its business with a prudent perspective on financial metrics including capital. The Enlarged Group will also be regulated in Ireland by the CBI and, where it conducts business outside the UK and Ireland, the laws and regulations of a number of other jurisdictions will also apply to the Enlarged Group.

2.2 Reasons for the Acquisition

The Directors believe the Acquisition and enhanced partnership with Standard Life Aberdeen will deliver the following strategic and financial benefits to the Group:

- ***Underpin Phoenix as the pre-eminent closed life fund consolidator in Europe***: The Acquisition creates an enlarged Group with £240 billion of legacy assets and 10.4 million policyholders. This greater scale and alignment with Phoenix's existing product mix strengthens Phoenix's capacity to generate shareholder value through the delivery of management actions and future accretive acquisitions.
- ***Materially enhances the Group's cashflows over time***: The Acquisition is expected to generate a total of £5.5 billion of additional aggregate cashflows, of which £1.0 billion is expected to be generated between 2018 and 2022 and £4.5 billion from 2023 onwards.
- ***Delivers an increased dividend with enhanced sustainability***: The additional cash generation supports a proposed increase in the annualised cost of the dividend to £338 million from the date of the 2018 final dividend. Taking into account the impact of the Rights Issue and the associated bonus adjustment, this is approximately equivalent to a 4.3 per cent. increase in the dividend per share based on the share price of 772 pence as at 29 May 2018.[(1)]
- ***Significant potential for cost and capital synergies***: The integration of Standard Life Assurance is expected to create total net synergies of £720 million, including recurring pre-tax cost savings of £50 million per annum, valued at £415 million[(2)], and non-recurring net capital synergies of £440 million, less post-tax integration costs of £135 million (calculated as at the date of announcement of the Acquisition).
- ***Attractive transaction pricing***: The total consideration payable of £2,930 million (based in part on the implied value of Standard Life Aberdeen's approximately 19.99 per cent. stake in the Enlarged Group following Completion as at 22 February 2018) represents 84 per cent. of Standard Life Assurance's estimated Solvency II Own Funds[(3)] of £3.5 billion as at 31 December 2017 (on a shareholder capital basis).[(4)] This ratio compares favourably with 85 per cent. and 89 per cent. of Solvency II Own Funds that were paid for the recent acquisitions of AXA Wealth and Abbey Life, respectively.
- ***Efficient financing structure***: The total consideration of £2,930 million (based in part on the implied value of Standard Life Aberdeen's approximately 19.99 per cent. stake in the Enlarged Group following Completion as at 22 February 2018) will be financed through: (i) a cash consideration of £1,971 million, and (ii) the issuance to Standard Life Aberdeen of Shares representing approximately 19.99 per cent. of the Enlarged Share Capital following Completion. The Company proposes to finance the cash consideration of £1,971 million using the net proceeds of the Rights Issue of approximately £937 million and the net proceeds of the RT1 Notes of approximately £495 million, with the remaining cash consideration financed from up to £900 million of undrawn commitments under the Revolving Credit Agreement, up to £600 million of undrawn commitments under the Acquisition Facility Agreement and up to £250 million of own cash resources. The proposed financing structure is expected to maintain the Group's Fitch leverage ratio within the Group's target range of 25 to 30 per cent.
- ***Maintains balance sheet strength***: The Group's estimated Solvency II Surplus as at 31 December 2017 is expected to increase from £1.8 billion to £2.5 billion on a pro forma basis[(3)], the Shareholder Capital Coverage Ratio[(3)] is estimated to be 147 per cent and the regulatory coverage ratio is estimated to be 132 per cent. The Solvency II Surplus will increase by £0.3 billion following the equity hedging planned following Completion, resulting in an increase in the Shareholder Capital Coverage Ratio of 9 per cent. and an increase in the regulatory coverage ratio of 6 per cent.

- ***Organic future growth in assets from Client Service and Proposition Agreement***: The reinforced strategic partnership includes a Client Service and Proposition Agreement enabling Phoenix to manufacture and provide policy administration for workplace pension, onshore and offshore bonds, individual pension and drawdown products.
- ***Optionality for future European expansion, with a potential £160 billion market opportunity in Germany and Ireland***: In acquiring an established business footprint in Germany and Ireland, the Acquisition increases Phoenix's potential market from approximately £380 billion of closed life fund assets in the UK to approximately £540 billion of assets across the UK, Germany and Ireland.

Notes:

(1) Adjusted for Phoenix's final 2017 dividend of 25.1 pence per share. The actual reported year-on-year dividend per share uplift will depend on the adjustment for the bonus element of the proposed Rights Issue at the time of the start of trading of the nil paid rights.

(2) Total net synergies of £720 million consist of capital synergies of £440 million and cost synergies valued at £415 million (calculated as after tax annual synergies capitalised over ten years), after deducting post-tax integration costs of £135 million (calculated as at the date of announcement of the Acquisition).

(3) Solvency II Own Funds, SCR and the Shareholder Capital Coverage Ratio of Standard Life Assurance exclude amounts relating to unsupported with-profits. In addition, the Standard Life Assurance Own Funds and SCR are stated after pre-Completion adjustments comprising payment of a dividend to Standard Life Aberdeen, repayment of capital qualifying subordinated debt and the expected treatment of certain pension schemes. The Standard Life Assurance Own Funds have also been adjusted to reflect acquisition adjustments comprising the additional VAT liability that arises post-Completion in respect of investment management fees and the transaction costs incurred by the Company in connection with the Acquisition and associated financing. For further detail on these adjustments, see Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document. The Solvency II Surplus of the Enlarged Group assumes £600 million of additional hybrid debt and is subject to regulatory approval of the Internal Model treatment.

(4) The consideration for the Acquisition is stated following the deduction of a pre-Completion dividend to Standard Life Aberdeen of £312 million. In the event that the Acquisition completes after Phoenix's 2018 interim dividend ex-dividend date, there will be an additional payment of the amount of the dividend that Standard Life Aberdeen would otherwise have received had it been on Phoenix's shareholder register at the relevant period.

Further Details on the Financial Impact of the Acquisition

The Acquisition will bring to the Group an additional £166 billion of assets and approximately 4.8 million policyholders, based on Standard Life Assurance's position as at 31 December 2017. This will result in an increase in the Group's existing assets to £240 billion and a total of 10.4 million policyholders.

On 23 February 2018, the Company announced a new standalone cash generation target, excluding the impact of the Acquisition, of £2.5 billion for the years 2018 to 2022, with a further £3.8 billion of cash generation expected from 2023 onwards. Including Standard Life Assurance, the Group's aggregate cash generation from in-force business, after implementing certain management actions, is expected to be £11.8 billion, of which £3.5 billion is expected for the years 2018 to 2022 with a further £8.3 billion expected from 2023 onwards. Furthermore, the Group anticipates incremental value from future new business arising under the Client Service and Proposition Agreement for the workplace pension and individual pension, onshore and offshore bond and drawdown products of Standard Life Assurance in the UK, Ireland and Germany.

The Acquisition is expected to result in recurring pre-tax cost savings of £50 million per annum, which when capitalised over ten years are valued at £415 million on a post-tax basis. The separation and transition process is expected to take at least three to four years from Completion, with approximately 30 per cent. of the benefit achieved by mid-2020 and the remainder by the end of 2021. In the short term, £15 million of the reduction in annualised operating expenses is as a result of efficiencies gained from the combination of life company management and support functions, with the remaining £35 million of the reduction due to the leveraging of other aspects of Phoenix's operating model. This expected cost saving is compared with the net operating expenses of Standard Life Assurance of £336 million for the year ended 31 December 2017 as set out in Part IX ("*Financial Information of Standard Life Assurance*") of this document. The Acquisition is also expected to create non-recurring net capital synergies of £440 million as a result of the hedging of unit-linked value-in-force business and the application of Phoenix's Strategic Asset Allocation across the enlarged annuity portfolio by the end of 2020. As at the date of announcement of the Acquisition, the Directors expect to incur one-time post-tax expenditure of approximately £135 million to complete the integration and deliver the cost savings referred to above. The Directors believe that the estimated synergies set out above (which may be subject to the prior approval of the PRA) could not be achieved without Completion. The estimated synergies set out above reflect both the beneficial elements and relevant costs.

The Group's estimated Solvency II Own Funds are expected to increase to £7.8 billion as at 31 December 2017, with the Group's SCR expected to increase to £5.3 billion (both on a shareholder capital basis). The estimated Solvency II Surplus as at 31 December 2017 is expected to increase from £1.8 billion to £2.5 billion, with the Shareholder Capital Coverage Ratio reducing from 164 per cent. to 147 per cent. Phoenix has implemented hedging strategies to protect its capital position in line with the Group's existing market risk policies from the date of announcement of the Acquisition, which is expected to support the resilience of the Group's Solvency II capital sensitivities. In addition, the equity hedging planned following Completion will improve the capital position by £0.3 billion and the Shareholder Capital Coverage Ratio by 9 per cent. based on the pro forma position at 31 December 2017.

Further information on the expected pro forma impact of the Acquisition and the Rights Issue on the consolidated income statement and consolidated balance sheet of the Enlarged Group is set out in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") and Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document. The financial and other benefits set out above are contingent on the Acquisition completing and could not be achieved independently.

2.3 Reasons for the Rights Issue

The Directors decided on the Rights Issue as a means of raising capital as this would ensure that, if Qualifying Shareholders (other than, subject to limited exceptions, Shareholders with a registered address in, or resident in, one of the Excluded Territories or one of the other Restricted Territories) buy all of the New Shares to which they are entitled, their shareholdings would not be diluted as a result of the cash financing arrangements concerning the Acquisition. This means that Shareholders who subscribe for all of the New Shares to which they are entitled under the Rights Issue will have the same percentage interest in the Company both before and after the Rights Issue, subject to the rounding down of fractions (although their shareholdings will be diluted as a result of the issuance of the Acquisition Shares, if Completion occurs).

3. SUMMARY INFORMATION ON THE GROUP

The Group specialises in the management and acquisition of closed life and pension funds and operates primarily in the UK. As at 31 December 2017, the Group had approximately 5.6 million policyholders, £74 billion of assets under management and Solvency II Own Funds of £6.6 billion. Measured by number of policyholders, the Group is the UK's largest specialist consolidator of closed life insurance funds. The Group is primarily focused on the efficient management of in-force policies and currently writes limited new policies (as increments to existing policies and annuities for current policyholders when their policies mature). The Group also writes a limited set of direct protection policies.

The Group has three operating life insurance companies which hold policyholder assets, Phoenix Life Limited ("**PLL**"), Phoenix Life Assurance Limited ("**PLAL**") and ALAC.

The Group's two principal management service companies, Pearl Group Services Limited ("**PGS**") and Pearl Group Management Services Limited ("**PGMS**"), aim to provide all administrative services required by the Phoenix Life Companies (or manage the provision of such services through outsourcing arrangements), including policy administration, information technology, finance and facility management services.

On 1 November 2016, the Group acquired the SunLife Embassy Business from AXA UK for £373 million in cash. The acquisition added £12 billion of assets under management and over 910,000 policyholders to the Group.

On 30 December 2016, the Group acquired ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings No. 4 Ltd., a wholly-owned subsidiary of Deutsche Bank AG for £933 million in cash. Proceeds from a rights issue of 144,727,282 new shares at 508 pence per new share, which closed on 25 October 2016 were applied towards the consideration paid for the acquisition. The acquisition added £10 billion assets under management and 735,000 policyholders.

The Group has three main staff pension schemes for its employees: the Pearl Scheme, the PGL Pension Scheme and the Abbey Life Pension Scheme. For further information on the Group's pension schemes, see the section headed "*Pensions*" in Part IV ("*Business Overview of the Group*") of this document.

4. SUMMARY INFORMATION ON STANDARD LIFE ASSURANCE

Standard Life Assurance will include the majority of Standard Life Aberdeen's UK and European life insurance business but will not include Standard Life Aberdeen's UK retail platforms and advice business. Standard Life Assurance is a leading provider of long-term savings and investment propositions. It is primarily based in the UK, with further operations through branches in Ireland and Germany. Its main aim is to help people manage their money today and save for their future. As at 31 December 2017, Standard Life Assurance had approximately 4.8 million policyholders and £166 billion of AUA (approximately 25 per cent. of Standard Life Aberdeen's total AUA).

Standard Life Assurance is authorised by the PRA and regulated by the FCA and the PRA to carry on long-term insurance business in the UK and by the CBI in Ireland in respect of the conduct of its Irish activities. Standard Life Assurance had estimated Solvency II Own Funds of £3.5 billion and SCR of £2.5 billion as at 31 December 2017 (both on a shareholder capital basis). The estimated Solvency II Surplus of Standard Life Assurance as at 31 December 2017 was £1.0 billion, with a Shareholder Capital Coverage Ratio of 143 per cent. For further detail on the calculation of Solvency II Own Funds, SCR and the Shareholder Capital Coverage Ratio of Standard Life Assurance, see the section headed "*Business overview*" in Part V ("*Business Overview of Standard Life Assurance*") of this document.

Key business segments within Standard Life Assurance include the following:

- UK Mature and Spread/Risk Business (£55.7 billion of assets), which consists of conventional with-profits business, annuity business, pensions, legacy life bonds and protection business;
- Workplace Business (£40.2 billion of assets), which includes modern group pension products as well as legacy group pension products (split roughly equally between modern and legacy products at approximately £19 billion and £21 billion, respectively);
- UK Retail Business (£46.2 billion of assets), which consists primarily of pensions products sold through independent financial advisers and "non-advised" routes;
- European Business (£23.7 billion of assets), which comprises the following segments:
    - German closed book with-profits business and unit-linked products in Germany (approximately £11.2 billion);
    - Legacy products in Ireland and modern products for the Irish domestic market (approximately £6.2 billion);
    - Offshore bonds distributed in the UK via independent financial advisers (approximately £6.3 billion).

As part of contingency planning for Brexit, Standard Life Assurance currently intends to conduct a Part VII transfer of its Irish and German branches and Austrian blocks of business into its Irish subsidiary in early 2019.

5. INTEGRATION OF STANDARD LIFE ASSURANCE

Phoenix management has significant experience integrating acquisitions into the Group. Following the completion of the AXA Transaction and the Abbey Life Acquisition in November 2016 and December 2016, respectively, full integration of these businesses is now substantially complete. The Group is therefore able to draw on its skilled resource pool to execute the integration of Standard Life Assurance.

Phoenix will apply a disciplined approach to the separation and transition of Standard Life Assurance and that will leverage its existing skills and experience in delivering an effective operating model which continues to focus on strong risk management, leading governance and financial restructuring, all delivered by skilled and experienced teams in both Phoenix and Standard Life Assurance. In addition, Phoenix will build on the strong capabilities in Standard Life Assurance to support new business expected to be manufactured through the strategic partnership. The Company expects that the separation and transition of Standard Life Assurance will take at least three to four years from Completion. For further details on the expected financial benefits of the Acquisition, see paragraph 2.2 ("*Reasons for the Acquisition*") of this letter.

Following Completion, over 57 per cent. of the Enlarged Group's headcount will be based in Edinburgh and Phoenix has indicated to Standard Life Aberdeen its long-term intention to maintain operational headquarters in Edinburgh.

6. FINANCING THE ACQUISITION

The total consideration will be financed through: (i) a cash consideration of £1,971 million; and (ii) the issuance to Standard Life Aberdeen of Shares representing approximately 19.99 per cent. of the Enlarged Share Capital following Completion.

The Company proposes to finance the cash consideration of £1,971 million using the net proceeds of the Rights Issue of approximately £937 million and the net proceeds of the RT1 Notes of approximately £495 million, with the remaining cash consideration financed from up to £900 million of undrawn commitments under the Revolving Credit Agreement, up to £600 million of undrawn commitments under the Acquisition Facility Agreement and up to £250 million of own cash resources.

On 23 February 2018, the Company entered into the Backstop Revolving Credit Agreement, which was available on a certain funds basis and was only intended to be utilised if the Revolving Credit Agreement had been cancelled. As a result of the amendments to the Revolving Credit Agreement becoming effective on 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled on 2 May 2018.

On 23 February 2018, the Company also entered into the Acquisition Facility Agreement, which is available on a certain funds basis.

On 26 April 2018, the Company issued the RT1 Notes, the proceeds from which are expected to be used to fund a portion of the cash consideration for the Acquisition.

Details of the Sponsor and Underwriting Agreement, the Revolving Credit Agreement, the Backstop Revolving Credit Agreement and the Acquisition Facility Agreement can be found at paragraphs 12.1.17 ("*Sponsor and Underwriting Agreement*"), 12.1.4 ("*Revolving Credit Agreement*"), 12.1.5 ("*Backstop Revolving Credit Agreement*") and 12.1.6 ("*Acquisition Facility Agreement*"), respectively, in Part XV ("*Additional Information*") of this document. Details of the RT1 Notes can be found in the section headed "*RT1 Notes*" in Part VIII ("*Operating and Financial Review of the Group*") of this document.

The proposed financing mix will maintain the Group's balance sheet strength, with the Fitch leverage ratio expected to remain within the Group's target range of 25 to 30 per cent.

7. CURRENT TRADING, PROSPECTS AND TREND INFORMATION

7.1 Phoenix Group Holdings

The Group published its Annual Report and Accounts for the year ended 31 December 2017 on 15 March 2018.

Phoenix generated a total of £653 million of cash from the Group's operating companies in 2017 and had holding company cash of £535 million as at 31 December 2017.

Phoenix is on track to be at the top end of the range of its £1.0 to £1.2 billion cash generation target for 2017 to 2018. In addition, on 23 February 2018, Phoenix announced a new, long-term cash generation target of £2.5 billion from the existing businesses over the period 2018 to 2022, excluding the impact of the Acquisition.

As at 31 December 2017, Phoenix had an estimated £74 billion of life company assets and 5.6 million policyholders. It had an estimated Solvency II Own Funds of £6.6 billion and estimated SCR of £4.8 billion as at 31 December 2017. Phoenix's estimated Solvency II Surplus as at 31 December 2017 was £1.8 billion, with a Shareholder Capital Coverage Ratio of 164 per cent.

The integration of AXA Wealth and Abbey Life is now substantially complete, delivering larger than anticipated benefits. Since acquisition, AXA Wealth and Abbey Life have delivered cash generation of £282 million and £236 million, respectively. Furthermore, Phoenix now expects higher cost synergies from the acquisitions, from £10 million to £17 million per year for AXA Wealth and from £7 million to £10 million per year for Abbey Life.

At its Investor Day on 14 June 2017, Phoenix announced its intention to selectively examine transactions in the bulk purchase annuity market. Phoenix continues to believe that this market offers an attractive and complementary source of assets for the Group and can confirm that it has recently completed a £470 million bulk purchase annuity with the Trustee of the Marks and Spencer Pension Scheme covering a proportion of its pensioner members. This is Phoenix's first external bulk purchase annuity transaction and comes less than a year after it signalled its intention to enter the bulk purchase annuity market.

Although delayed from the original proposed date as a result of the Acquisition, Phoenix's ongoing onshoring process, including putting in place a new UK-registered holding company for the Group, is expected to occur as soon as is practicable following Completion.

Details of the Group's financial performance can be found in Part VII ("*Financial Information of the Group*") and Part VIII ("*Operating and Financial Review of the Group*") of this document.

7.2 Standard Life Assurance

Standard Life Assurance's profit after tax for the year ended 31 December 2017 was £344 million (2016: £239 million). The increase of £105 million from the prior year reflects the impact of net outflows in Standard Life Assurance's older books of business, offset by a reduction in investment return and the associated effect on third party interest in the consolidated investment funds.

Standard Life Assurance's profit after tax for the year ended 31 December 2016 was £239 million (2015: £209 million). The increase of £30 million from the prior year reflects the increase in investment return from positive equity performance and reduced yields generating gains on debt securities, offset by increases in liabilities as a result of these factors.

As at 31 December 2017, Standard Life Assurance had approximately 4.8 million policyholders and £166 billion of AUA (approximately 25 per cent. of Standard Life Aberdeen's total AUA). Standard Life Assurance had estimated Solvency II Own Funds of £3.5 billion and SCR of £2.5 billion as at 31 December 2017 (both on a shareholder capital basis). The estimated Solvency II Surplus of Standard Life Assurance as at 31 December 2017 was £1.0 billion, with a Shareholder Capital Coverage Ratio of 143 per cent. For further detail on the calculation of Solvency II Own Funds, SCR and the Shareholder Capital Coverage Ratio of Standard Life Assurance, see the section headed "*Business overview*" in Part V ("*Business Overview of Standard Life Assurance*") of this document.

Details of Standard Life Assurance's financial performance can be found in Part IX ("*Financial Information of Standard Life Assurance*") and Part X ("*Operating and Financial Review of Standard Life Assurance*") of this document.

8. EMPLOYEES AND MANAGEMENT

The Group operates across four primary locations in Birmingham, London and Basingstoke, with the Sun Life distribution business based in Bristol. It had 1,249 employees as at 31 December 2017, of which 77 were considered to be "fixed term" employees with specified end dates. In addition, as at 31 December 2017, the Group employed approximately 35 contractors or temporary staff to cover flexible resource requirements.

It is anticipated that, subject to appropriate consultation, the Standard Life Aberdeen employees required to support the Standard Life Assurance business who are not already employed by SLAL will transfer to Standard Life Assets and Employee Services Limited, a newly-incorporated subsidiary of SLAL ("**SLAL Newco**"). It is anticipated that approximately 3,200 full-time equivalent employees in total (including employees of SLAL) will be included as part of the Acquisition, of which approximately 2,700 full-time equivalent roles are based in the UK, approximately 250 in Ireland and approximately 250 in Germany and Austria. Standard Life Aberdeen, with Phoenix's support, will manage the transfer, which is likely to be pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("**TUPE**") and will be confirmed following appropriate consultation with employees or their representatives where required.

The Group will work closely with Standard Life Assurance and Standard Life Aberdeen to effect separation and transfer actions as efficiently and expediently as possible and will enter into certain transitional services agreements, if necessary.

9. PRINCIPAL TERMS OF THE ACQUISITION AND THE STRATEGIC PARTNERSHIP

9.1 Share Purchase Agreement

On 23 February 2018, Phoenix (as buyer) and Standard Life Aberdeen (as seller) entered into a share purchase agreement, which was amended and restated on 28 May 2018 (the "**Share Purchase Agreement**"). Under its terms, and subject to certain conditions, the entire share capital of SLAL shall transfer to the Company.

For further details of the terms of the Share Purchase Agreement, see paragraph 1 ("*Principal Terms of the Share Purchase Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.2 Purchase Price Adjustment

Under the terms of the Share Purchase Agreement, there may be an adjustment to the price paid by the Company in respect of the Acquisition under the Share Purchase Agreement (the "**Purchase Price Adjustment**").

For further details of the terms of the Purchase Price Adjustment, see paragraph 2 ("*Principal Terms of the Purchase Price Adjustment*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.3 Deed of Indemnity

On Completion, Phoenix, Standard Life Aberdeen and SLAL will enter into a deed of indemnity (the "**SLAL Deed of Indemnity**") with respect to certain liabilities arising out of the FCA-mandated, and Standard Life Aberdeen's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices.

For further details of the terms of the Deed of Indemnity, see paragraph 3 ("*Principal Terms of the Deed of Indemnity*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.4 Tax Deed

On Completion, Phoenix and Standard Life Aberdeen will enter into a deed of tax covenant (the "**Tax Deed**") with respect to certain tax liabilities of Standard Life Assurance.

For further details of the terms of the Tax Deed, see paragraph 4 ("*Principal Terms of the Tax Deed*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.5 Transitional Services Agreement

On 23 February 2018, Phoenix and Standard Life Aberdeen agreed the form of heads of terms for a transitional services agreement (the "**TSA Heads of Terms**") to be entered into by SLESL, SLAL and/or SLAL Newco as soon as practicable pending finalisation and execution of the full-form document upon Completion (the "**Transitional Services Agreement**"). It is expected that under the Transitional Services Agreement, SLESL will continue to provide certain services or procure that certain services are provided to SLAL Newco and certain named third party beneficiaries and SLAL Newco shall provide certain services or procure that certain services are provided to SLESL and other relevant entities within the retained Standard Life Aberdeen group.

For further details of the terms of the Transitional Services Agreement, see paragraph 5 ("*Principal Terms of the Transitional Services Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.6 Client Service and Proposition Agreement

Phoenix and Standard Life Aberdeen have agreed heads of terms for a client service and proposition agreement (the "**CSPA Heads of Terms**") to be entered into at Completion by SLAL, certain subsidiaries of SLAL and certain subsidiaries of the Standard Life Aberdeen group. SLAL will continue to manufacture, sell and develop workplace products, individual pension products and onshore bond products, and SLIDAC will continue to manufacture, sell and develop offshore bond products. Certain of these products will be made available by members of the Standard Life Aberdeen group via its retained platform businesses (for example, the Wrap individual pensions).

For further details of the terms of the Client Service and Proposition Agreement, see paragraph 6 ("*Principal Terms of the Client Service and Proposition Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.7 Trade Mark Licence Agreement

On 23 February 2018, Phoenix and Standard Life Aberdeen agreed the form of heads of terms for a trade mark licence (the "**TM Licence Heads of Terms**") to be entered into by SLESL (as licensor) and SLAL (as licensee), which will be replaced by a long-form licence agreement at Completion (the "**Trade Mark Licence Agreement**").

For further details of the terms of the Trade Mark Licence Agreement, see paragraph 7 ("*Principal Terms of the Trade Mark Licence Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.8 **Investment Management Agreement**

Standard Life Investments Limited ("**SLI**") was appointed in July 2006 to manage substantially all of Standard Life Assurance's investment portfolio. Pursuant to the terms of the Share Purchase Agreement, Phoenix and Standard Life Aberdeen have agreed that Standard Life Aberdeen delivers at Completion an amended and restated investment management agreement between SLAL and SLI (the "**Investment Management Agreement**") on substantially the same terms as the investment management agreement in agreed form at the time of signing of the Share Purchase Agreement. Pursuant to the Investment Management Agreement, SLI would continue to serve as the investment manager of Standard Life Assurance's investment portfolio.

For further details of the terms of the Investment Management Agreement, see paragraph 8 ("*Principal Terms of the Investment Management Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

9.9 **Relationship Agreement**

Standard Life Aberdeen and Phoenix have agreed the terms of a relationship agreement to be entered into upon Completion to govern Standard Life Aberdeen's holding of Shares and the continuing relationship between the parties following Completion (the "**Relationship Agreement**").

For further details of the terms of the Relationship Agreement, see paragraph 9 ("*Principal Terms of the Relationship Agreement*") of Part XIV ("*Terms of the Acquisition*") of this document.

10. PRINCIPAL TERMS OF THE RIGHTS ISSUE

Pursuant to the Rights Issue, the Company is proposing to offer 183,522,385 New Shares and/or New Depositary Interests by way of a rights issue to Qualifying Shareholders other than, subject to limited exceptions, to Shareholders with a registered address in, or resident in, one of the Excluded Territories or one of the other Restricted Territories. The offer is to be made at 518 pence per New Share, payable in full on acceptance by not later than 11.00 a.m. on 9 July 2018. If the Rights Issue were to proceed but the Acquisition does not complete, the Directors intend to retain the net proceeds of the Rights Issue for use within the following 12 months on the general commercial activities of the Group and alternative acquisitions in pursuit of the Group's strategy as a consolidator of closed life and pension funds. Failing this, the Directors will either seek to return the net proceeds of the Rights Issue to shareholders in a tax efficient and practicable manner or seek shareholders' approval to continue to hold the net proceeds of the Rights Issue for general corporate purposes. The Rights Issue is expected to raise approximately £937 million (net of expenses incurred in connection with the Rights Issue). The Issue Price represents a 32.9 per cent. discount to the Closing Price of 772 pence per Share on 29 May 2018 (being the last Business Day before the announcement of the terms of the Rights Issue) and a 25.1 per cent. discount to the theoretical ex-rights price of 691 pence per Share calculated by reference to the Closing Price on 29 May 2018.

The Rights Issue will be made on the basis of:

7 New Shares at 518 pence per New Share for every 15 Existing Shares

held by Qualifying Shareholders at the close of business on the Record Date.

Entitlements to New Shares and/or New Depositary Interests will be rounded down to the nearest whole number and fractional entitlements will not be allotted to Shareholders but will be aggregated and issued into the market for the benefit of the Company. Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

The Rights Issue is fully underwritten by the Banks pursuant to the Sponsor and Underwriting Agreement. The principal terms of the Sponsor and Underwriting Agreement are summarised at paragraph 12.1.17 ("*Sponsor and Underwriting Agreement*") in Part XV ("*Additional Information*") of this document.

The Rights Issue will result in 183,522,385 New Shares being issued (representing approximately 46.7 per cent. of the existing issued share capital and, assuming no additional Shares are issued prior to the Rights Issue, approximately 31.2 per cent. of the Enlarged Share Capital following completion of the Rights Issue on a fully diluted basis).

The Rights Issue is conditional, *inter alia*, upon:

(i) the Sponsor and Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission;

(ii) Admission becoming effective by not later than 8.00 a.m. on 26 June 2018 (or such later time and/or date as the Company may agree with the Joint Global Coordinators); and

(iii) the passing, without material amendment, of the Resolutions.

The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued Shares, including the right to receive dividends or distributions made, paid or declared after the date of this document. Application will be made to the FCA and to the LSE for the New Shares to be admitted to the Official List and to trading on the LSE. It is expected that Admission will occur and that dealings in the New Shares (nil paid) on the LSE will commence at 8.00 a.m. on 26 June 2018.

Some questions and answers, together with details of further terms and conditions of the Rights Issue, including the procedure for acceptance and payment and the procedure in respect of rights not taken up, are set out in Part II ("*Some Questions and Answers About the Rights Issue*") and Part III ("*Terms and Conditions of the Rights Issue*") of this document and, where relevant, will also be set out in the Provisional Allotment Letter.

Overseas Shareholders should refer to paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document for further information on their ability to participate in the Rights Issue.

11. DIVIDENDS AND DIVIDEND POLICY

The Company's dividend per share was 50.2 pence in respect of the year ended 31 December 2017. When taking into account the bonus adjustment associated with the rights issue completed at the time of the Abbey Life Acquisition, the equivalent dividend per share was 46.6 pence in respect of the year ended 31 December 2016 and 45.4 pence in respect of the year ended 31 December 2015.

Supported by the additional long-term cashflows arising from the Acquisition, Phoenix announced on 23 February 2018 that it expects to increase its annualised dividend to £338 million from the date of the final 2018 dividend versus the current standalone annualised dividend of £197 million. Taking into account the impact of the Rights Issue and the associated bonus adjustment, this is approximately equivalent to a 4.3 per cent. increase in the dividend per share based on the share price of 772 pence as at 29 May 2018. Given the long-term run-off nature of the Group's business, the Directors believe it is prudent to maintain its stable and sustainable dividend policy going forward.

The Group currently maintains a significant regulatory capital surplus that is resilient to market movements (as illustrated in the section headed "*Capital position*" of Part VIII ("*Operating and Financial Review of the Group*") of this document) and had £535 million of cash at the holding company level as at 31 December 2017, providing further support for its stable and sustainable dividend policy.

12. FURTHER INFORMATION

Your attention is drawn to the further information set out from Part II ("*Some Questions and Answers About the Rights Issue*") to Part XV ("*Additional Information*") of this document. Shareholders should read the whole of this document and not rely solely on the information set out in this letter. In addition, you should consider the risk factors in the section of this document headed "*Risk Factors*".

13. OVERSEAS SHAREHOLDERS

The attention of Overseas Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of or located in countries other than the United Kingdom, is drawn to the information in paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

New Shares and/or New Depositary Interests will be provisionally allotted (nil paid) to all Shareholders on the register at the Record Date, including Overseas Shareholders. However, Provisional Allotment Letters will only be sent to Qualifying Non-CREST Shareholders other than, subject to limited exceptions, those with a registered address, or who are resident or located (as applicable), in one of the Excluded Territories or one of the other Restricted Territories and,

although the CREST stock accounts of all Qualifying Depositary Interest Holders, including Overseas Shareholders, will be credited, such crediting does not in itself constitute an offer.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Shareholder on the register at the Record Date to take up his rights if the Company in its sole and absolute discretion is satisfied that the transaction in question will not violate applicable laws.

The provisions of paragraph 2.4 ("*Procedure in respect of rights not taken up (whether certificated or in CREST) and withdrawal*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document will apply generally to Overseas Shareholders who cannot or do not take up the New Shares and/or New Depositary Interests provisionally allotted to them.

14. TAXATION

Certain information about UK and Cayman Islands taxation in relation to the Rights Issue is set out in Part XIII ("*Taxation*") of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the UK and the Cayman Islands, you should consult your own independent tax adviser without delay.

15. GENERAL MEETING

The notice of General Meeting to be held at 11.00 a.m. on 25 June 2018 at Grange St. Paul's Hotel, 10 Godliman Street, London EC4V 5AJ is set out at the end of this document (the "**Notice of General Meeting**"). The purpose of the General Meeting is to seek Shareholders' approval to the Resolutions set out in the Notice of General Meeting (collectively, the "**Resolutions**"), including to conditionally replace certain authorities granted to the Directors at the Company's annual general meeting held on 2 May 2018 (the "**2018 AGM**"). Resolutions 1 to 4 will be proposed as ordinary resolutions and Resolutions 5 to 7 will be proposed as special resolutions.

Due to its size, the Acquisition constitutes a Class 1 transaction under the Listing Rules and therefore requires the approval of Shareholders. Shareholders will also be asked to approve the allotment of the New Shares to be issued in connection with the Rights Issue, the allotment of the Acquisition Shares to be issued to Standard Life Aberdeen in connection with the Acquisition and to grant certain authorities with respect to the Enlarged Share Capital following Completion.

The Resolutions are summarised below:

Resolution 1

Resolution 1 will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 1 proposes that the Acquisition be approved and that the Directors be authorised to take all steps and enter all agreements and arrangements necessary or appropriate to implement the Acquisition.

Resolution 2

Resolution 2 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. Resolution 2 is subject to and conditional on the passing of Resolution 1.

Resolution 2 proposes that the Directors be generally and unconditionally authorised to allot and issue equity securities in connection with the Rights Issue with an aggregate nominal amount of €18,352 (representing 183,522,385 Shares). If granted, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2019.

Resolution 3

Resolution 3 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. Resolution 3 is subject to and conditional on the passing of Resolutions 1 and 2.

Resolution 3 proposes that the Directors be generally and unconditionally authorised to allot and issue equity securities to Standard Life Aberdeen in connection with the Acquisition, up to an aggregate nominal amount of €14,411 (representing 144,106,049 Shares). If granted, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2019.

Resolution 4

Resolution 4 will be proposed as an ordinary resolution requiring a simple majority of votes in favour. Resolution 4 is subject to and conditional on (i) the passing of Resolutions 1, 2 and 3, (ii) Completion having taken place and (iii) Re-admission having taken place.

Resolution 4 proposes that the Directors be generally and unconditionally authorised to allot and issue equity securities, up to an aggregate nominal amount of €24,030 (representing 240,296,896 Shares and approximately one-third of the Enlarged Share Capital following Completion) and, in the event of a pre-emptive issue, up to an aggregate nominal amount of €48,059 (representing 480,593,792 Shares and approximately two-thirds of the Enlarged Share Capital following Completion). If granted, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018 AGM).

This authority grants the Directors a standing authority (in substitution for the authority granted pursuant to resolution 16 passed at the 2018 AGM) to allot and issue equity securities on a similar basis to that granted at the 2018 AGM but in respect of the Enlarged Share Capital following Completion. The authority being sought under this Resolution is in accordance with the Share Capital Management Guidelines of the Investment Association.

The Directors' present intention is to exercise, in whole or in part, the authorities sought under this Resolution where any such transaction involves the issue of equity securities (to the extent that Shareholder approval is not separately sought for such transactions and related issuances). There can be no certainty, however, whether or not any such transaction may take place. The Directors also expect to use this authority for issues of equity securities in accordance with the various executive and employee share plans of the Company.

For the avoidance of doubt, the Company has authority, in addition to that sought pursuant to this Resolution, pursuant to the Seventh Amended and Restated Memorandum and Articles of Association to issue and allot further equity securities in accordance with its obligations under the Lender Warrants. For further information on the Lender Warrants, see paragraph 3.7.2 ("*Lender Warrants*") of Part XV ("*Additional Information*") of this document.

Resolution 5

Resolution 5 will be proposed as a special resolution requiring at least 75 per cent. of votes in favour. Resolution 5 is subject to and conditional on (i) the passing of Resolutions 1, 2, 3 and 4, (ii) Completion having taken place and (iii) Re-admission having taken place.

Resolution 5 proposes that the Directors be authorised to allot equity securities for cash up to a maximum of 5 per cent. of the Enlarged Share Capital following Completion. In line with the Pre-Emption Group guidance, it is intended that, within a rolling three-year period, use of the authority in Resolution 5 in excess of 7.5 per cent. of the Enlarged Share Capital following Completion should not take place without prior consultation with, or suitable explanation to, Shareholders. If granted, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018 AGM).

This authority grants the Directors authority (in substitution for the authority granted pursuant to resolution 17 passed at the 2018 AGM) to allot equity securities on a similar basis to that granted at the 2018 AGM but in respect of the Enlarged Share Capital following Completion.

Resolution 6

Resolution 6 will be proposed as a special resolution requiring at least 75 per cent. of votes in favour. Resolution 6 is subject to and conditional on (i) the passing of Resolutions 1, 2, 3 and 4, (ii) Completion having taken place and (iii) Re-admission having taken place.

Resolution 6 proposes that the Directors be authorised to allot equity securities for cash up to a maximum of 5 per cent. of the Enlarged Share Capital following Completion where the allotment is connected with an acquisition or specified capital investment. If granted, this authority will expire at the conclusion of the annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018 AGM).

This authority is in addition to the authority granted pursuant to Resolution 5 and grants the Directors authority (in substitution for the authority granted pursuant to resolution 18 at the 2018

AGM) to allot equity securities in connection with an acquisition or specified capital investment on a similar basis to that granted at the 2018 AGM but in respect of the Enlarged Share Capital following Completion. The Directors confirm that the authority granted by Resolution 6 will only be used in accordance with the Pre-Emption Group guidance.

Resolution 7

Resolution 7 will be proposed as a special resolution requiring at least 75 per cent. of votes in favour. Resolution 7 is subject to and conditional on (i) the passing of Resolutions 1, 2 and 3, (ii) Completion having taken place and (iii) Re-admission having taken place.

Resolution 7 proposes that the Company is generally and unconditionally authorised to purchase Shares in the market up to a maximum of 10 per cent. of the Enlarged Share Capital following Completion. Any purchases of Shares would be by means of market purchases through the LSE. Any Shares purchased under this authority will, subject to the Companies Law, either be cancelled or held in treasury. Such decisions will be made by the Directors at the time of purchase, although currently the intention would be to hold in treasury rather than cancel any Shares the Company buys back. The Company currently has no Shares held in treasury.

The minimum price, exclusive of expenses, which may be paid for a Share is €0.0001. The maximum price, exclusive of expenses, which may be paid for a Share is the highest of (i) an amount equal to 105 per cent. of the average of the middle market quotations for a Share as derived from the Daily Official List of the LSE for the five business days immediately preceding the day on which the Share is contracted to be purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Directors have no present intention of exercising the authority to make market purchases, although the authority will provide flexibility to allow the Directors to do so in the future. The Directors each confirm that they are not conflicted in their recommendation of this authority. This authority will only be used when the Directors believe it would be in the best interests of Shareholders generally and could be expected to result in an increase in earnings per share of the Company.

This authority grants the Company authority (in substitution for the authority granted pursuant to resolution 19 at the 2018 AGM) to purchase Shares in the market on a similar basis to that granted at the 2018 AGM but in respect of the Enlarged Share Capital following Completion.

16. ACTION TO BE TAKEN IN RESPECT OF THE GENERAL MEETING

A Form of Proxy for use at the General Meeting is enclosed with this document. Whether or not you intend to be present at the General Meeting, you are requested to complete and return the Form of Proxy, in accordance with the instructions printed thereon, as soon as possible and in any event so that it may be received by the Registrar not later than 11.00 a.m. on 22 June 2018. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting should they wish to do so.

17. ACTION TO BE TAKEN IN RESPECT OF THE ACQUISITION AND THE RIGHTS ISSUE

If the Resolutions are approved and the Rights Issue proceeds, you will be sent a Provisional Allotment Letter giving you details of your Nil Paid Rights by post on or about 25 June 2018 if you are a Qualifying Non-CREST Shareholder other than, subject to limited exceptions, a Shareholder with a registered address, or who is resident or located (as applicable), in one of the Excluded Territories or one of the other Restricted Territories. If you are a Qualifying Depositary Interest Holder, you will not be sent a Provisional Allotment Letter. Instead, you will receive a credit to your appropriate stock accounts in CREST in respect of Nil Paid Rights, which it is expected will take place as soon as practicable after 8.00 a.m. on 26 June 2018. Such crediting does not in itself constitute an offer of New Depositary Interests.

If you sell or have sold or otherwise transferred all of your Shares held (other than ex-rights) in certificated form before 26 June 2018, please forward this document and any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to, the Restricted Territories and the Excluded Territories.

If you sell or have sold or otherwise transferred all or some of your Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

If you sell or have sold or otherwise transferred only part of your holding of Existing Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part III ("*Terms and Conditions of the Rights Issue*") of this document and in the Provisional Allotment Letter.

The latest time and date for acceptance and payment in full in respect of the Rights Issue is expected to be 11.00 a.m. on 9 July 2018, unless otherwise announced by the Company. The procedure for acceptance and payment is set out in Part III ("*Terms and Conditions of the Rights Issue") of this document and, if applicable, in the Provisional Allotment Letter.*

For Qualifying Non-CREST Shareholders who take up their rights other than, subject to limited exceptions, Shareholders with a registered address, or resident in, one of the Excluded Territories or one of the other Restricted Territories, the New Shares will be issued in certificated form and will be represented by definitive share certificates, which are expected to be despatched by not later than 16 July 2018 to the registered address of the person(s) entitled to them.

For Qualifying Depositary Interest Holders who take up their rights, the Registrar will instruct CREST to credit the stock accounts of the Qualifying Depositary Interest Holders with their entitlements to New Depositary Interests. It is expected that this will take place by 8.00 a.m. on 10 July 2018.

Qualifying Depositary Interest Holders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Rights Issue.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the FSMA or, if you are outside the United Kingdom, by another appropriately authorised independent financial adviser.

18. FINANCIAL ADVICE

The Board has received financial advice from BofA Merrill Lynch and HSBC in relation to the Acquisition. In providing such financial advice to the Board, BofA Merrill Lynch and HSBC have relied upon the Board's commercial assessments of the Acquisition.

19. DIRECTORS' INTENTIONS

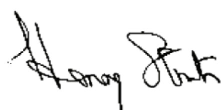
The Directors are fully supportive of the Rights Issue. Each of the Directors who hold Shares will, to the extent that he or she is able, either take up in full his or her rights to subscribe for New Shares under the Rights Issue or sell a sufficient number of their Nil Paid Rights during the nil paid trading period to meet the costs of taking up the balance of their entitlements to New Shares.

20. RECOMMENDATION AND VOTING INTENTIONS

The Directors believe the Acquisition and the Resolutions are in the best interests of the Group and Shareholders as a whole and, accordingly, unanimously recommend that the Shareholders vote in favour of the Resolutions as the Directors will do, or procure, in respect of their own beneficial holdings amounting to 1,069,133 Existing Shares representing approximately 0.26 per cent. of the Company's existing issued share capital as at the Latest Practicable Date.

Yours faithfully,

for and on behalf of Phoenix Group Holdings



Henry Staunton
Chairman

PART II—SOME QUESTIONS AND ANSWERS ABOUT THE RIGHTS ISSUE

The questions and answers set out in this Part II (''Some Questions and Answers About the Rights Issue'') are intended to be generic guidance only and, as such, you should also read Part III (''Terms and Conditions of the Rights Issue'') of this document for further details of what action you should take if you wish to participate in the Rights Issue. If you are in any doubt about the action to be taken, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser duly authorised under FSMA if you are in the United Kingdom, or if you are not, from another appropriately authorised financial adviser.

If you are an Overseas Shareholder, you should read the answer to question 4.7 (''What should I do if I live outside the United Kingdom?'') of this Part II (''Some Questions and Answers About the Rights Issue'') and you should take professional advice as to whether you are eligible and/or need to observe any formalities to enable you to take up your rights pursuant to the Rights Issue.

Shares in the Company can be held in certificated form or as Depositary Interests representing Shares in uncertificated form (that is, held through CREST). Accordingly, the questions and answers are split into four sections:

Section 1: (General);

Section 2: (Shares in certificated form) answers questions you may have in respect of the procedures for Qualifying Shareholders who hold their Shares in certificated form;

Section 3: (Depositary Interests held through CREST) answers questions you may have in respect of the equivalent procedures for Qualifying Shareholders who hold Depositary Interests in CREST; and

Section 4: (Further procedures for Shares in certificated form or Depositary Interests held through CREST) answers some detailed questions about your rights and the actions you may need to take and is applicable to Shares whether held in certificated form or as Depositary Interests representing Shares in CREST.

If you do not know whether you hold Shares in certificated form or Depositary Interests in uncertificated form (that is, through CREST), please contact Computershare Investor Services PLC on 0370 707 4040 or if calling from outside the UK on +44 (0)370 707 4040. The helpline is open between 9.00 a.m. to 5.00 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Computershare Investor Services PLC cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

1. GENERAL

1.1 *What is a rights issue?*

A rights issue is one way for companies to raise money. Companies do this by issuing shares for cash and giving their existing shareholders a right of first refusal to buy these shares in proportion to their existing shareholdings. For example, in a 1-for-4 rights issue, a shareholder is generally entitled to buy one new share for every four shares currently held. This Rights Issue is a 7-for-15 rights issue; that is, an offer of 7 New Shares for every 15 Existing Shares held by Qualifying Shareholders at the close of business on 22 June 2018 (the ''**Record Date**'' for the Rights Issue). The Depositary holds Existing Shares on behalf of the Depositary Interest Holders, as explained further in Part III (''*Terms and Conditions of the Rights Issue*'') of this document, and accordingly will receive a provisional allotment of New Shares on behalf of the Qualifying Depositary Interest Holders.

New shares are typically offered in a rights issue at a discount to the current share price. Because of this discount and while the market value of the shares exceeds the Issue Price, the right to buy the new shares is potentially valuable. In this Rights Issue, the Issue Price of 518 pence per New Share represents a 32.9 per cent. discount to the Closing Price of 772 pence per Share on 29 May 2018 (being the last Business Day before the announcement of the terms of the Rights Issue) and a 25.1 per cent. discount to the theoretical ex-rights price of 691 pence per Share calculated by reference to the Closing Price on 29 May 2018.

If you do not want to buy the New Shares (or New Depositary Interests) to which you are entitled (if any), you can instead sell your rights to those shares (or Depositary interests) and receive the net proceeds, if any, of the sale or transfer in cash. This is referred to as dealing ''nil paid''.

2. SHARES IN CERTIFICATED FORM

2.1 *How do I know if I am eligible to participate in the Rights Issue?*

If you receive a Provisional Allotment Letter and you do not have a registered address nor are you a person located or resident in any of the Excluded Territories (save, in certain limited exceptions, in the Restricted Territories) then you should be eligible to participate in the Rights Issue through the Provisional Allotment Letter (as long as you have not sold all of your Shares before 8.00 a.m. on 26 June 2018 (the time when the Shares are expected to be marked "ex-rights" by the LSE)).

However, if you receive a Provisional Allotment Letter and you have a registered address in, or are resident or a person located in, a country other than the United Kingdom, you must satisfy yourself as to the full observance of the applicable laws of such territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. Receipt of this document or a Provisional Allotment Letter does not constitute an offer in those jurisdictions in which it would be illegal to make an offer. Overseas Shareholders should refer to paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document for further details. Subject to certain limited exceptions, Provisional Allotment Letters will not be sent to Shareholders with a registered address in, or located or resident in, any Excluded Territory or Restricted Territory.

If you do not receive a Provisional Allotment Letter, and you do not hold any Depositary Interests, this probably means you are not eligible to acquire any New Shares. However, see question 2.3, below.

2.2 *What are my options and what should I do with the Provisional Allotment Letter?*

The Provisional Allotment Letter will show:

(i) In **Box 1**: the number of certificated Shares you held at the close of business on the Record Date;

(ii) In **Box 2**: the number of certificated New Shares you are entitled to buy pursuant to the Rights Issue; and

(iii) In **Box 3**: how much you need to pay if you want to take up your right to buy all the New Shares provisionally allotted to you in full.

(a) If you want to take up your Rights Issue Entitlement in full

If you want to take up in full your Rights Issue Entitlement to subscribe for the New Shares to which you are entitled, all you need to do is send the Provisional Allotment Letter, together with your cheque or banker's draft in pounds sterling for the full amount shown in Box 3, payable to "Computershare re Phoenix Rights Issue" and crossed "A/C payee only", by post or by hand (during normal business hours only) to the address shown on page 1 of the Provisional Allotment Letter so as to arrive before 11.00 a.m. on 9 July 2018. You can use the reply-paid envelope, which will be provided with the Provisional Allotment Letter within the United Kingdom only. Please allow sufficient time for delivery. Paragraphs 2.1.2 ("*Action to be taken by Qualifying Non-CREST Shareholders in relation to Nil Paid Rights represented by Provisional Allotment Letters-Procedure for acceptance and payment*") and 2.2.2 ("*Action to be taken by Qualifying Depositary Interest Holders in relation to Nil Paid Rights and Fully Paid Rights in CREST-Procedure for acceptance and payment*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document set out full instructions on how to accept and pay for your New Shares and/or New Depositary Interests. These instructions are also set out in the Provisional Allotment Letter. You will be required to pay in full for all the Rights Issue Entitlement you take up. A definitive share certificate will be sent to you for the New Shares you acquire and it is expected that such certificate(s) will be despatched to you on 16 July 2018.

Your Provisional Allotment Letter will not be returned to you unless you specifically request so by completing Box 4 on the Provisional Allotment Letter. You will only need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights.

Cheques must be in pounds sterling and drawn on a UK bank account. Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has inserted details of the name of the account holder and have either added the building society or bank branch stamp or have provided a supporting letter confirming the source of funds. The name of the account holder should be the same as the name of the shareholder shown on page 1 or page 4 of the Provisional Allotment Letter.

(b) If you want to take up some but not all of your Rights Issue Entitlement

If you want to take up some but not all of your Rights Issue Entitlement and wish to sell some or all of those you do not want to take up, you should first apply for split Provisional Allotment Letters by completing Form X on page 2 of the Provisional Allotment Letter and then return it to the Receiving Agent by post at Computershare Investor Services PLC at Corporate Actions Projects, Bristol, BS99 6AH or by hand (during normal office hours only), to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to be received by not later than 3.00 p.m. on 5 July 2018, the last time and date for splitting Provisional Allotment Letters, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights or Fully Paid Rights to be comprised in each split Provisional Allotment Letter. You can use the reply-paid envelope, which will be provided with the Provisional Allotment Letter within the United Kingdom. Please allow sufficient time for delivery. You should then deliver the split Provisional Allotment Letter representing the right to New Shares you wish to accept together with your cheque or banker's draft to the Receiving Agent by post at Computershare Investor Services PLC at Corporate Actions Projects, Bristol, BS99 6AH or by hand (during normal office hours only), to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to be received by not later than 11:00 a.m. on 9 July 2018, the last time and date for acceptance and payment in full. The further split Provisional Allotment Letters (representing the New Shares the Qualifying Shareholder does not wish to take up) should be delivered to such transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to such transferee, and will be required in order to sell those rights not being taken up.

Qualifying Shareholders who wish to effect a cashless take-up of their Nil Paid Rights (which may be achieved through the sale of such portion of their Nil Paid Rights as will raise sufficient funds to allow the relevant Qualifying Shareholder to take up their remaining Nil Paid Rights) should contact their broker, who may be able to assist with such arrangements. Please note that your ability to sell your Rights Issue Entitlement is dependent on demand for such Rights Issue Entitlement and that the price for Nil Paid Rights may fluctuate. Please ensure that you allow enough time so as to enable the person acquiring your Rights Issue Entitlement to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 9 July 2018.

Alternatively, if you want only to take up some of your Rights Issue Entitlement (and do not wish to sell some or all of those you do not want to take up), you should complete Form X on page 2 of the Provisional Allotment Letter and return it to the Receiving Agent by post at Computershare Investor Services PLC at Corporate Actions Projects, Bristol, BS99 6AH or by hand (during normal office hours only), to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, together with a covering letter confirming the number of New Shares you wish to take up and a cheque or banker's draft for the appropriate amount. In this case, the Provisional Allotment Letter and cheque must be received by the Receiving Agent by 3.00 p.m. on 5 July 2018, the last time for splitting nil paid. You can use the reply-paid envelope, which will be provided with the Provisional Allotment Letter within the United Kingdom. Please allow sufficient time for delivery.

You can also elect to sell a sufficient number of Nil Paid Rights to raise money to effect a cashless take-up of your remaining rights through the Special Dealing Service operated by Computershare. If you want to effect a cashless take-up, you should tick

the box in the section headed "Cashless Take-up" on page 1 of the Provisional Allotment Letter, sign and date it and return the Provisional Allotment Letter by 3.00 p.m. on 2 July 2018.

Please note that your ability to sell your rights is dependent on demand for such rights and that the price for Nil Paid Rights may fluctuate. Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 9 July 2018.

Further details relating to payment and acceptance are set out in paragraphs 2.1.2 ("*Action to be taken by Qualifying Non-CREST Shareholders in relation to Nil Paid Rights represented by Provisional Allotment Letters—Procedure for acceptance and payment*") and 2.2.2 ("*Action to be taken by Qualifying Depositary Interest Holders in relation to Nil Paid Rights and Fully Paid Rights in CREST—Procedure for acceptance and payment*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

(c) If you want to sell all of your Rights Issue Entitlement

If you want to sell all of your Rights Issue Entitlement, you should complete and sign Form X on page 2 of the Provisional Allotment Letter (if it is not already marked "Original Duly Renounced") and pass the entire letter to your stockbroker, bank manager or other appropriate financial adviser or to the transferee (provided they are not in any of the Restricted Territories).

Please note that your ability to sell your Rights Issue Entitlement is dependent on the demand for such Rights Issue Entitlement and that the price for the Nil Paid Rights may fluctuate.

The latest time and date for selling all of your Rights Issue Entitlement is 11.00 a.m. on 9 July 2018. Please ensure, however, that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 9 July 2018.

You can also elect to sell all your Nil Paid Rights through the Special Dealing Service operated by Computershare. If you want to sell all of your Nil Paid Rights, you should tick the box in the section headed "Sell all of your rights" on page 1 of the Provisional Allotment Letter, sign and date it and return the Provisional Allotment Letter by 3.00 p.m. on 2 July 2018.

(d) If you do not want to take up your Rights Issue Entitlement at all, and want to let them lapse and potentially receive a sale of lapsed rights payment

If you do not want to take up any of your Rights Issue Entitlement and want to let them lapse and potentially receive a sale of lapsed rights payment, you do not need to do anything. If you do not return your Provisional Allotment Letter together with payment by 11.00 a.m. on 9 July 2018, the Company has made arrangements under which the Banks will endeavour to find investors to take up your Rights Issue Entitlements and the Rights Issue Entitlements of others who have not taken up their Rights Issue Entitlements by 5.00 p.m. on the second day on which the LSE is open for business in the trading of securities admitted to the Official List ("**Dealing Day**") after the last date for acceptance of the Rights Issue. If the Banks find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT), you will be sent a cheque for your share of the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT), so long as the amount in question is at least £5. Cheques are expected to be despatched by 16 July 2018 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold Shares jointly). If the Banks cannot find investors who agree to pay a premium above the Issue Price and related expenses so that your entitlement would be £5 or more, you will not receive any payment. Any amounts of less than £5 will be aggregated and retained for the benefit of the Company.

2.3 *What if I do not receive a Provisional Allotment Letter?*

If you do not receive a Provisional Allotment Letter and you do not hold Depositary Interests in CREST, this probably means that your registered address is in or you are located or resident in a Restricted Territory or Excluded Territory. Some Qualifying Shareholders, however, will not receive a Provisional Allotment Letter.

If you do not receive a Provisional Allotment Letter but think that you should have received one (for instance, if you are a Qualifying Depositary Interest Holder who held your Shares as Depositary Interests in uncertificated form on 22 June 2018 and who has subsequently converted them to Shares in certificated form), please contact Computershare Investor Services PLC on 0370 707 4040 or if calling from outside the UK on +44 (0)370 707 4040. The helpline is open between 9.00 a.m. to 5.00 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Computershare Investor Services PLC cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

2.4 *If I buy or have bought Shares after the Record Date but before 8.00 a.m. on 26 June 2018 (the date the New Shares start trading ex-rights), will I be eligible to participate in the Rights Issue?*

If you buy or have bought Shares before 8.00 a.m. on 26 June 2018 (the date the New Shares start trading ex-rights (that is, without the right to participate in the Rights Issue, referred to as the Ex-Rights Date)) but are not registered as the holder of those Shares on the Record Date, you may still be eligible to participate in the Rights Issue. If you are in any doubt, please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, to ensure that you claim your entitlement.

You will not be entitled to participate in the Rights Issue or to Nil Paid Rights in respect of any Shares acquired on or after the Ex-Rights Date.

2.5 *What should I do if I sell or have sold or transferred all or some of the Shares shown in Box 1 of the Provisional Allotment Letter before the Ex-Rights Date?*

If you sell or have sold or transferred all of your Shares before the Ex-Rights Date, you should complete Form X on page 2 of the Provisional Allotment Letter and send the entire Provisional Allotment Letter to the purchaser or transferee or stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer (provided they are not in any of the Restricted Territories).

If you sell or have sold or transferred only some of your holding of Shares before the Ex-Rights Date, you will need to complete Form X on page 2 of the Provisional Allotment Letter and consult the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer before taking any action with regard to the balance of Rights Issue Entitlement due to you.

2.6 *How many New Shares will I be entitled to acquire?*

Box 2 on page 1 of the Provisional Allotment Letter shows the number of certificated New Shares you will be entitled to buy if you are a Qualifying Non-CREST Shareholder and not a Shareholder (subject to limited exceptions) with a registered address or located or resident in any of the Restricted Territories or Excluded Territories and, where applicable, Depositary Interest Holders with a registered address or located or resident in any of the Restricted Territories or Excluded Territories (an "**Excluded Overseas Shareholder**"). You will be entitled to buy 7 New Shares for every 15 Existing Shares held at the close of business on the Record Date. All Qualifying Non-CREST Shareholders (other than Qualifying Non-CREST Shareholders who have their registered address in an Excluded Territory or, save in certain instances, a Restricted Territory) will be sent a Provisional Allotment Letter.

2.7 *What should I do if I think my holding of Shares (as shown in Box 1 on page 1 of the Provisional Allotment Letter) is incorrect?*

If you are concerned about the figure in Box 1, please contact Computershare Investor Services PLC on 0370 707 4040 or if calling from outside the UK on +44 (0)370 707 4040. The helpline is open between 9.00 a.m. to 5.00 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Computershare Investor Services PLC cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

2.8 *If I take up my rights, when will I receive my New Share certificate?*

If you take up your rights under the Rights Issue, share certificates for the New Shares are expected to be posted on 16 July 2018.

3. DEPOSITARY INTERESTS HELD THROUGH CREST

3.1 *How do I know if I am eligible to participate in the Rights Issue?*

The Depositary holds Shares on behalf of Depositary Interest Holders and accordingly will receive a provisional allotment of New Shares on behalf of Qualifying Depositary Interest Holders. The Depositary will pass on the provisional allotment made in its favour to Qualifying Depositary Interest Holders other than Qualifying Depositary Interest Holders who have their registered address in an Excluded Territory or a Restricted Territory and otherwise in accordance with the terms and conditions set out in this document and in accordance with the deed poll dated 2 June 2010 executed by the Depositary in favour of the holders of the Depositary Interests from time to time (the "**Deed Poll**").

If you are a Qualifying Depositary Interest Holder (other than a Qualifying Depositary Interest Holder who is an Excluded Overseas Shareholder), and on the assumption that the Rights Issue proceeds as planned, your CREST stock account will be credited with your entitlement to Nil Paid Rights on 26 June 2018. The stock account to be credited will be the account under the participant ID and member account ID that apply to your Depositary Interests on the Record Date. The Nil Paid Rights are expected to be enabled as soon as practicable after 8.00 a.m. on 26 June 2018. If you are a CREST-sponsored member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Overseas Shareholders with a registered address or located or resident in (subject to certain limited exceptions) any of the Restricted Territories will not be credited with Nil Paid Rights. Overseas Shareholders should refer to paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

3.2 *How do I take up my Rights Issue Entitlement using CREST?*

You should refer to paragraph 2.2.2 ("*Procedure for acceptance and payment*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document for details on how to take up and pay for your Rights Issue Entitlement.

If you are a Qualifying Depositary Interest Holder (other than a Qualifying Depositary Interest Holder who is an Excluded Territory Shareholder), you should ensure that a Many-to-Many instruction ("**MTM instruction**") has been inputted and has settled by 11.00 a.m. on 9 July 2018 in order to make a valid acceptance. If your Depositary Interests are held by a nominee or you are a CREST-sponsored member, you should speak directly to the agent who looks after your stock or your CREST sponsor (as appropriate), who will be able to help you. If you have further questions, particularly of a technical nature regarding acceptance through CREST, you should call the CREST Service Desk.

3.3 *If I buy or have bought Depositary Interests after the Record Date but before 8.00 a.m. on 26 June 2018 (the date that the Shares start trading ex-rights), will I be eligible to participate in the Rights Issue?*

If you buy or have bought Depositary Interests after the Record Date but before 8.00 a.m. on 26 June 2018, but are not registered as the holder of those Depositary Interests on the Record Date, you may still be eligible to participate in the Rights Issue. Euroclear will raise claims in the normal manner in respect of your purchase and your Nil Paid Rights will be credited to your stock account(s) on settlement of those claims.

You will not be entitled to participate in the Rights Issue or to Nil Paid Rights in respect of any Depositary Interests acquired at or after 8.00 a.m. on 26 June 2018.

3.4 *What should I do if I sell or transfer all or some of my Depositary Interests before 8.00 a.m. on 26 June 2018 (the Ex-Rights Date)?*

You do not have to take any action. A claim transaction in respect of that sale or transfer will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

3.5 ***How many New Shares am I entitled to acquire?***

If you are a Qualifying Depositary Interest Holder (other than a Qualifying Depositary Interest Holder who is an Excluded Overseas Shareholder), your stock account will be credited with Nil Paid Rights in respect of the number of Depositary Interests to reflect the New Shares which you are entitled to acquire. You will be entitled to acquire 7 New Shares for every 15 Depositary Interests held at the close of business on the Record Date. You can also view the claim transactions in respect of purchases/sales effected after this date, but before the Ex-Rights Date. If you are a CREST-sponsored member, you should consult your CREST sponsor.

3.6 ***What should I do if I think my holding of Depositary Interests is incorrect?***

If you are concerned about the number of Nil Paid Rights with which your stock account has been credited, please contact Computershare Investor Services PLC on 0370 707 4040 or if calling from outside the UK on +44 (0)370 707 4040. The helpline is open between 9.00 a.m. to 5.00 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Computershare Investor Services PLC cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

3.7 ***If I take up my Rights Issue Entitlement, when will Depositary Interests representing my New Shares be credited to my CREST stock account(s)?***

If you take up your Rights Issue Entitlement under the Rights Issue, it is expected that Depositary Interests representing your New Shares will be credited to the CREST stock account(s) in which you hold your Fully Paid Rights on 26 June 2018.

4. FURTHER PROCEDURES FOR SHARES WHETHER IN CERTIFICATED FORM OR DEPOSITARY INTERESTS HELD THROUGH CREST

4.1 ***What happens if the number of New Shares and/or New Depositary Interests to which I am entitled is not a whole number? Am I entitled to fractions of New Shares and/or New Depositary Interests?***

Your entitlement to New Shares and/or New Depositary Interests will be calculated at the close of business on the Record Date (other than in the case of those who bought Shares or Depositary Interests after the Record Date but before the Ex-Rights Date who are eligible to participate in the Rights Issue). If the result is not a whole number, your entitlement will be rounded down to the nearest whole number of New Shares and/or New Depositary Interests, meaning that you will not be provisionally allotted a New Share and/or New Depositary Interests in respect of the fractional entitlement. The New Shares and/or New Depositary Interests representing the aggregated fractions that would otherwise be allotted to Qualifying Shareholders will, if a price over the Issue Price and the expenses of sale can be obtained, be sold in the market for the benefit of Qualifying Shareholders who would otherwise have been entitled to such fraction of a New Share and/or New Depositary Interest, save that Qualifying Shareholders will not receive any proceeds in respect of a fractional entitlement in the event that such proceeds have a value of £5 or less.

4.2 ***Will I be taxed if I take up or sell my Rights Issue Entitlement or if my Rights Issue Entitlement is sold on my behalf?***

If you are resident in the United Kingdom for tax purposes, you should not have to pay UK tax when you take up your Rights Issue Entitlement to subscribe for New Shares and/or New Depositary Interests, although the Rights Issue will affect the amount of UK tax you may pay when you subsequently sell your Shares and/or New Depositary Interests. However, you may be subject to capital gains tax on any proceeds you receive from the sale of your Rights Issue Entitlement.

Further information for certain Qualifying Shareholders is contained in Part XIII (“*Taxation*”) of this document. Qualifying Shareholders who are in any doubt as to their tax position should consult their professional advisers as soon as possible. Please note that Computershare Investor Services PLC’s helpline is unable to advise on any taxation issues.

4.3 ***I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?***

If you are a Qualifying Shareholder and you do not want to buy the New Shares and/or New Depositary Interests being offered to you under the Rights Issue, you can instead sell or transfer your Nil Paid Rights and receive the net proceeds of the sale or transfer in cash. This is referred to as dealing “nil paid”. During the nil paid trading period (between 8.00 a.m. on 26 June 2018 and 11.00 a.m. on 9 July 2018), subject to demand and market conditions, persons can buy and sell the

Nil Paid Rights. Please note that your ability to sell your rights is dependent on demand for such rights and that the price of the Nil Paid Rights will fluctuate.

If you wish to sell or transfer all or some of your Nil Paid Rights and you hold your Shares in certificated form, you will need to complete Form X, the form of renunciation, on page 2 of the Provisional Allotment Letter and send it to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, to be forwarded to the purchaser or transferee.

If you buy Nil Paid Rights, you are buying an entitlement to take up the New Shares and/or New Depositary Interests in respect of such Nil Paid Rights, subject to your paying for them in accordance with the terms of the Rights Issue. Any seller of Nil Paid Rights who holds their Shares in certificated form will need to forward to you their Provisional Allotment Letter (with Form X completed) for you to complete and return, with your cheque, by 11.00 a.m. on 9 July 2018, in accordance with the instructions in the Provisional Allotment Letter.

If you are a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations) (a "**CREST member**") or a CREST participant admitted to CREST as a sponsored member (a "**CREST-sponsored member**") and have received a Provisional Allotment Letter and you wish to hold your Nil Paid Rights in uncertificated form in Depositary Interests in CREST, then (in the case of a CREST member) you should send the Provisional Allotment Letter with Form X and the CREST Deposit Form on page 2 of the Provisional Allotment Letter completed to the CREST courier and sorting service by 3.00 p.m. on 4 July 2018 at the latest, or (in the case of a CREST-sponsored member) you should contact your CREST sponsor.

Qualifying Depositary Interest Holders and, subject to dematerialisation of their Nil Paid Rights as set out in the Provisional Allotment Letter, Qualifying Non-CREST Shareholders who are CREST members or CREST-sponsored members, can convert their Nil Paid Rights, in whole or in part, in Nil Paid Rights in respect of Depositary Interests in CREST in the same manner as any other security that is admitted to CREST. Please consult your CREST sponsor or stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

4.4 *What if I want to sell the New Shares for which I have paid?*

If you are a Qualifying Shareholder, provided the New Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing Form X, the form of renunciation, on page 2 of the receipted Provisional Allotment Letter in accordance with the instructions set out on pages 3 and 4 of the Provisional Allotment Letter until 11.00 a.m. on 9 July 2018.

After that time, you will be able to sell your New Shares in the normal way. However, the share certificate relating to your New Shares is expected to be despatched to you on 16 July 2018. Pending despatch of such share certificate, valid instruments of transfer will be certified by the Registrar against the register.

If you hold your Depositary Interests and/or rights in CREST, you may transfer them in the same manner as any other security that is admitted to CREST. Please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

4.5 *What if I do nothing?*

If you do not want to take up any of your rights, you do not need to do anything. If you do not take up your Rights Issue Entitlement, the number of Shares (or Depositary Interests representing Shares) you hold in the Company will stay the same but, following completion of the Rights Issue, the proportion of the total number of Shares (or Depositary Interests representing Shares) that you will hold relative to the total issued share capital of the Company will be lower than that held currently. If you are a Qualifying Shareholder and do not take up and make payment for the New Shares and/or New Depositary Interests to which you are entitled by 11.00 a.m. on 9 July 2018, the Company has made arrangements under which the Banks will endeavour to find investors to take up your Rights Issue Entitlement and those of other Qualifying Shareholders who have not taken up their Rights Issue Entitlements by 5.00 p.m. on the second Dealing Day after the last date for acceptance of the Rights Issue. If the Banks find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of VAT), you will be sent a cheque for your share of the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage and commissions and amounts in respect of VAT), so long as the amount

in question is at least £5. Cheques are expected to be despatched by 16 July 2018 and will be sent to your address as it appears on the Company's register of members (or to the first named holder if you hold Shares jointly), provided that where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the Company procuring the creation of an assured payment obligation in favour of the relevant Qualifying Depositary Interest Holder's real time gross settlement system ("**RTGS**") settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism. If the Banks cannot find investors who agree to pay a premium above the Issue Price and related expenses so that your entitlement would be £5 or more, you will not receive any payment, and any amounts of less than £5 will be aggregated and retained for the benefit of the Company.

4.6 *What if I hold options and awards under the Employee Share Schemes?*

Participants in the Employee Share Schemes (as defined below) will be contacted separately with further information on how their options and awards granted under such plans may be affected by the Rights Issue.

4.7 *What should I do if I live outside the United Kingdom?*

Your ability to take up your Rights Issue Entitlement to New Shares and New Depositary Interests may be affected by the laws of the country in which you live and you should take professional advice about any formalities you need to observe. Shareholders resident outside the United Kingdom, including those with a registered address or those located or resident in any Excluded Territory or Restricted Territory, should refer to paragraph 2.6 ("*Overseas Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document.

4.8 *Will the Rights Issue affect the dividends the Company pays?*

Following completion of the Rights Issue, future dividend payments will be adjusted for the Rights Issue. The adjustment will take account of the discount in the Issue Price to the share price at close of business on 29 May 2018 (being the last Business Day prior to the announcement of the terms of the Rights Issue).

4.9 *What do I do if I have any further queries about the Rights Issue or the action I should take?*

If you have any other questions, please contact Computershare Investor Services PLC on 0370 707 4040 or if calling from outside the UK on +44 (0)370 707 4040. The helpline is open between 9.00 a.m. to 5.00 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Computershare Investor Services PLC cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

Your attention is drawn to the terms and conditions of the Rights Issue in Part III ("*Terms and Conditions of the Rights Issue*") of this document and (in the case of Qualifying Non-CREST Shareholders) in the Provisional Allotment Letter.

PART III—TERMS AND CONDITIONS OF THE RIGHTS ISSUE

1. INTRODUCTION

The Company is proposing to raise gross proceeds of approximately £950 million by way of a rights issue of 183,522,385 New Shares. Subject to the fulfilment of the conditions of the Sponsor and Underwriting Agreement, the New Shares will be offered under the Rights Issue by way of rights at 518 pence per New Share. This offer will be on the basis of:

7 New Shares for every 15 Existing Shares

held on the Record Date (and so in proportion for any other number of Existing Shares then held) and otherwise on the terms and conditions as set out in this document and, in the case of Qualifying Non-CREST Shareholders other than, subject to limited exceptions, Shareholders with a registered address, or located, in one of the Excluded Territories or one of the other Restricted Territories, the Provisional Allotment Letters.

The Depositary holds Shares on behalf of Depositary Interest Holders and accordingly will receive a provisional allotment of New Shares on behalf of Qualifying Depositary Interest Holders. The Depositary will pass on the provisional allotment made in its favour to Qualifying Depositary Interest Holders other than Qualifying Depositary Interest Holders who are in Excluded Territories or, save in certain instances, Restricted Territories and otherwise in accordance with the terms and conditions set out in this document and in accordance with the Deed Poll.

Times and dates referred to in this Part III ("*Terms and Conditions of the Rights Issue*") have been included on the basis of the expected timetable for the Rights Issue set out in the section of this document headed "*Expected Timetable of Principal Events*".

The Issue Price of 518 pence per New Share represents a 32.9 per cent. discount to the Closing Price of 772 pence per Share on 29 May 2018 (being the last Business Day before the announcement of the terms of the Rights Issue) and a 25.1 per cent. discount to the theoretical ex-rights price of 69.1 pence per Share calculated by reference to the Closing Price on 29 May 2018.

Qualifying Shareholders who do not take up their entitlements to New Shares (whether directly or through New Depositary Interests) will have their proportionate shareholdings in the Company diluted by approximately 31.8 per cent. Those Qualifying Shareholders who take up the New Shares provisionally allotted to them in full will, subject to the rounding down and sale of any fractions, retain the same proportionate voting and distribution rights as held by them at the close of business on the Record Date.

The Nil Paid Rights (also described as New Shares, nil paid) are entitlements to acquire the New Shares and/or New Depositary Interests subject to payment of the Issue Price. The Fully Paid Rights are entitlements to receive the New Shares and/or New Depositary Interests, for which a subscription and payment has already been made.

Holdings of Existing Shares in certificated form and holdings of Depositary Interests will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Entitlements to New Shares and/or New Depositary Interests will be rounded down to the next lowest whole number (or to zero in the case of shareholders holding fewer than 15 Existing Shares or Depositary Interests at the close of business on the Record Date) and fractions of New Shares will not be allotted to Qualifying Shareholders (and the Depositary will not make available fractions of New Depositary Interests to Qualifying Depositary Interest Holders). Such fractions will be aggregated and, if possible, placed as soon as practicable after the commencement of dealings in the New Shares, nil paid. The net proceeds of such placings (after deduction of expenses) will be aggregated and will ultimately accrue for the benefit of the Company.

Overseas Shareholders or any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the UK should consider paragraph 2.6 below. The offer of New Shares and New Depositary Interests under the Rights Issue will not be made into certain territories. Subject to the provisions of paragraph 2.6 below, Shareholders with a registered address in a Restricted Territory or an Excluded Territory are not being sent this document and will not be sent Provisional Allotment Letters.

Applications will be made to the UKLA and to the LSE for the New Shares (nil paid and fully paid) to be admitted to the premium segment of the Official List and to trading on the LSE's main market for listed securities, respectively. It is expected that Admission will become effective on 26 June 2018 and that dealings in the New Shares, nil paid, will commence on the LSE by 8.00 a.m. on that date.

The Shares are in registered form and can be held in certificated or uncertificated form via Depositary Interests in CREST. The Depositary Interests are already admitted to CREST. No further application for admission to CREST is required for the New Depositary Interests and all of the New Depositary Interests when issued and fully paid may be held and transferred by means of CREST.

Applications will be made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. Euroclear requires the Company to confirm to it that certain conditions (imposed by the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, the CREST Courier and Sorting Service Operations Manual, Daily Timetable, CREST Application Procedure, CREST Glossary of Terms and CREST Terms and Conditions (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since) (the "**CREST Manual**")) have been satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on Admission. As soon as practicable after satisfaction of the conditions, the Company will confirm this to Euroclear.

The International Securities Identification Number ("**ISIN**") for the New Depositary Interests will be the same as that of the Depositary Interests, being KYG7091M1096. The ISIN for the Nil Paid Rights will be KYG7058S1158 and for the Fully Paid Rights will be KYG7058S1075.

None of the New Shares or the New Depositary Interests is being offered to the public other than pursuant to the Rights Issue.

The Rights Issue has been fully underwritten by the Banks and is conditional, *inter alia*, upon:

(i) the Sponsor and Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission;

(ii) Admission becoming effective by not later than 8.00 a.m. on 26 June 2018 (or such later time and/or date as the Company may agree with the Joint Global Coordinators); and

(iii) the passing, without amendment, of the Resolutions.

The Sponsor and Underwriting Agreement is conditional upon certain matters being satisfied or not breached prior to the General Meeting and may be terminated by the Joint Global Coordinators prior to Admission upon the occurrence of certain specified events, in which case the Rights Issue will not proceed. For the avoidance of doubt, Admission will not proceed in the event the conditions are not satisfied or the Sponsor and Underwriting Agreement is terminated. The Sponsor and Underwriting Agreement is not capable of termination following Admission. The Banks may arrange sub-underwriting for some, all or none of the New Shares. A summary of certain terms and conditions of the Sponsor and Underwriting Agreement is contained in paragraph 12.1.17 ("*Sponsor and Underwriting Agreement*") of Part XV ("*Additional Information*") of this document.

The Banks and any of their respective affiliates may engage in trading activity in connection with their roles under the Sponsor and Underwriting Agreement and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own account in securities of the Company and related or other securities and instruments (including Shares, Depositary Interests, Nil Paid Rights and Fully Paid Rights) for the purpose of hedging their underwriting exposure or otherwise. Accordingly, references in this document to Nil Paid Rights, Fully Paid Rights, New Shares or New Depositary Interests being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Banks and any of their affiliates acting as investors for their own account. Except as required by applicable law or regulation, none of the Banks proposes to make any public disclosure in relation to such transactions. In addition certain of the Banks or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Banks (or their affiliates) may from time to time acquire, hold or dispose of Shares or Depositary Interests.

Subject, *inter alia*, to the conditions referred to above being satisfied (other than the condition relating to Admission) and save as provided in paragraph 2.6 below, it is intended that:

(i) Provisional Allotment Letters in respect of Nil Paid Rights will be despatched on 25 June 2018 to Qualifying Non-CREST Shareholders, other than, subject to limited exceptions, to Shareholders with a registered address, or resident or located, in one of the Excluded Territories or one of the Restricted Territories;

(ii) the Depositary will instruct Euroclear to credit the appropriate stock accounts of Qualifying Depositary Interest Holders (other than, subject to limited exceptions, Qualifying Depositary Interest Holders with a registered address, or resident or located, in one of the Excluded Territories or one of the Restricted Territories) with such Shareholders' entitlements to Nil Paid Rights with effect from 8.00 a.m. on 26 June 2018;

(iii) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement by Euroclear as soon as practicable after the Company has confirmed to Euroclear that all the conditions for admission of such rights to CREST have been satisfied, which is expected to be by 8.00 a.m. on 26 June 2018;

(iv) New Depositary Interests will be credited to the appropriate stock accounts of the relevant Qualifying Depositary Interest Holders and/or purchasers of Nil Paid Rights (or their renouncees) who validly take up their right, and the purchasers of Fully Paid Rights, as soon as practicable after 8.00 a.m. on 26 June 2018; and

(v) share certificates for the New Shares will be despatched to relevant Qualifying Non-CREST Shareholders or their renouncees by not later than 16 July 2018.

The offer will be made to Qualifying Non-CREST Shareholders other than, subject to limited exceptions, to Shareholders with a registered address, or resident or located, in one of the Excluded Territories or one of the Restricted Territories by way of the Provisional Allotment Letter (as described in step (i) above) and to Qualifying Depositary Interest Holders other than, subject to limited exceptions, to Qualifying Depositary Interest Holders with a registered address, or resident, in one of the Excluded Territories or one of the other Restricted Territories by way of the enablement of the Nil Paid Rights and the Fully Paid Rights (as described in step (iii) above) (such Shareholders' stock accounts having been credited as described in step (ii) above).

The New Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends or other distributions made, paid or declared after the date of this document. There will be no restrictions on the free transferability of the New Shares save as provided in the Articles. The rights attaching to the New Shares are governed by the Articles, a summary of which is set out in paragraph 4.1 ("*Seventh amended and restated memorandum and articles of association*") of Part XV ("*Additional Information*") of this document. The Depositary Interests are governed by the Deed Poll, a summary of which is set out in paragraph 13.1 ("*Deed Poll*") of Part XV ("*Additional Information*") of this document.

Qualifying Shareholders will not be able to apply for New Shares (whether directly or through New Depositary Interests) in excess of their entitlement.

All documents, including Provisional Allotment Letters (which constitute temporary documents of title) and cheques and certificates posted to, by or from Qualifying Shareholders and/or their transferees or renouncees (or their agents, as appropriate) will be posted at their own risk.

Shareholders and/or Depositary Interest Holders taking up their rights by completing a Provisional Allotment Letter or by sending an MTM instruction to Euroclear will be deemed to have given the representations and warranties set out in paragraph 2.7 ("*Representations and warranties relating to Shareholders*") of this Part III ("*Terms and Conditions of the Rights Issue*"), unless the requirement is waived by the Company with the consent of the Joint Global Coordinators.

2. ACTION TO BE TAKEN

The action to be taken by Qualifying Non-CREST Shareholders in respect of the New Shares to be held in certificated form and Qualifying Depositary Interest Holders in respect of the New Depositary Interests, differs.

If you are a Qualifying Non-CREST Shareholder other than, subject to limited exceptions, a Shareholder with a registered address, or who is resident or located, in one of the Excluded Territories or one of the Restricted Territories, please refer to paragraphs 2.1, 2.3, 2.4, 2.5 and 2.6 to 2.10 below.

If you are a Qualifying Depositary Interest Holder other than, subject to limited exceptions, a Depositary Interest Holder with a registered address, or who is resident or located, in one of the Excluded Territories or one of the Restricted Territories, please refer to paragraphs 2.2, 2.3, 2.4, 2.5 and 2.5 to 2.9 below and to the CREST Manual for further information on the CREST procedures referred to below.

If you are a Qualifying Non-CREST Shareholder or a Qualifying Depositary Interest Holder, with a registered address in an Excluded Territory, or any other Restricted Territory, please refer to paragraph 2.6 below.

CREST-sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST-sponsored members.

All enquiries in relation to the Provisional Allotment Letters should be addressed to Computershare Investor Services PLC on 0370 707 4040 (from within the UK) or on +44 (0)370 707 4040 (if calling from outside the UK). The helpline is open between 9.00 a.m. to 5.00 p.m. Monday to Friday except public holidays in England and Wales. Please note that Computershare Investor Services PLC cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

2.1 Action to be taken by Qualifying Non-CREST Shareholders in relation to Nil Paid Rights represented by Provisional Allotment Letters

2.1.1 *General*

Provisional Allotment Letters are expected to be despatched to Qualifying Non-CREST Shareholders on 25 June 2018. Each Provisional Allotment Letter will set out:

(i) the holding at the close of business on the Record Date of Existing Shares in certificated form on which a Qualifying Non-CREST Shareholder's entitlement to New Shares has been based;

(ii) the aggregate number of New Shares which have been provisionally allotted to that Qualifying Non-CREST Shareholder with respect to the Existing Shares referred to in (i);

(iii) the amount payable by a Qualifying Non-CREST Shareholder at the Issue Price to take up his entitlement in full;

(iv) the procedures to be followed if a Qualifying Non-CREST Shareholder wishes to dispose of all or part of his entitlement or to convert all or part of his entitlement into Depositary Interests in uncertificated form;

(v) the procedures to be followed if a Qualifying Non-CREST Shareholder who is eligible to use the Special Dealing Service wishes to sell all of his, her or its Nil Paid Rights or to effect a Cashless Take-up using the Special Dealing Service; and

(vi) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation (where applicable).

On the basis that Provisional Allotment Letters are posted on 25 June 2018, and that dealings in Nil Paid Rights commence on 26 June 2018, **the latest time and date for acceptance and payment in full will be 11.00 a.m. on 9 July 2018.**

If the Rights Issue is delayed so that Provisional Allotment Letters cannot be despatched on 25 June 2018 or if the timetable for the Rights Issue is otherwise amended, the expected timetable, as set out at the front of this document, will be adjusted accordingly and the revised dates will be set out in the Provisional Allotment Letters and announced through a Regulatory Information Service. All references to times and/or dates in this Part III ("*Terms and Conditions of the Rights Issue*") should be read as being subject to such adjustment.

2.1.2 *Procedure for acceptance and payment*

(i) *Qualifying Non-CREST Shareholders who wish to take up their entitlement in full*

Holders of Provisional Allotment Letters who wish to take up all of their entitlement must complete and return the Provisional Allotment Letter, together with a cheque or banker's draft in pounds sterling, made payable to "Computershare re Phoenix Rights Issue" and crossed "A/C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by post to Computershare Investor Services PLC at Corporate Actions Projects, Bristol, BS99 6AH or by hand (during normal office hours only), to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 a.m. on 9 July 2018. A reply-paid envelope will be enclosed with the Provisional

Allotment Letter for this purpose and for use in the UK only. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery.

Once your Provisional Allotment Letter, duly completed, and payment have been received by the Receiving Agent in accordance with the above, you will have accepted the offer to subscribe for the number of New Shares specified on your Provisional Allotment Letter.

(ii) *Qualifying Non-CREST Shareholders who wish to take up some (but not all) of their entitlement*

Holders of Provisional Allotment Letters who wish to take up some but not all of their Nil Paid Rights (other than by using the Special Dealing Service described in paragraph 2.3 of this Part III ("*Terms and Conditions of the Rights Issue*")) *and wish to sell some or all of those rights which they do not want to take up* should first apply for split Provisional Allotment Letters by completing Form X on the Provisional Allotment Letter and returning it, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights or Fully Paid Rights (if appropriate) to be comprised in each split Provisional Allotment Letter, by post to Computershare Investor Services PLC at Corporate Actions Projects, Bristol, BS99 6AH or by hand (during normal office hours only), to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE by 3.00 p.m. on 5 July 2018, the last date and time for splitting Provisional Allotment Letters. The Provisional Allotment Letter will then be cancelled and exchanged for the split Provisional Allotment Letters required. Such holders of Provisional Allotment Letters should then deliver the split Provisional Allotment Letter representing the rights they wish to take up together with a cheque or banker's draft in pounds sterling for this number of rights, payable to "Computershare re Phoenix Rights Issue" and crossed "A/C payee only" by 11.00 a.m. on 9 July 2018, the last date and time for acceptance. The further split Provisional Allotment Letters (representing the New Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights (other than by using the Special Dealing Service described in paragraph 2.3 of this Part III ("*Terms and Conditions of the Rights Issue*")), *without selling or transferring the remainder*, should complete Form X on the original Provisional Allotment Letter and return it, together with a covering letter confirming the number of rights to be taken up and a cheque or banker's draft in pounds sterling to pay for this number of Shares, by post to Computershare Investor Services PLC at Corporate Actions Projects, Bristol, BS99 6AH or by hand (during normal office hours only), to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8AE. In this case, the Provisional Allotment Letter and payment must be received by Computershare Investor Services PLC by 3.00 p.m. on 5 July 2018, the last date and time for splitting Provisional Allotment Letters.

(iii) *Company's discretion as to validity of acceptances*

If payment is not received in full by 11.00 a.m. on 9 July 2018, the provisional allotment will (unless the Company has exercised its right to treat as valid an acceptance, as set out below) be deemed to have been declined and will lapse. The Company may elect, with the consent of the Joint Global Coordinators, but shall not be obliged, to treat as valid Provisional Allotment Letters and accompanying remittances for the full amount due which are received prior to 5.00 p.m. on 9 July 2018.

The Company may elect, but shall not be obliged to treat as a valid acceptance, the receipt of appropriate remittance by 5.00 p.m. on 9 July 2018, from an authorised person (as defined in the FSMA) specifying the number of New Shares to be acquired and containing an undertaking by that person to lodge the relevant Provisional Allotment Letters, duly completed, in due course.

The Company may also (in its sole discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

The Company reserves the right to treat as invalid any acceptance or purported acceptance of the New Shares that appears to the Company to have been executed in, despatched from or that provided an address for delivery of definitive share certificates for New Shares in a

Restricted Territory or an Excluded Territory unless the Company is satisfied, and subject to approval by the Joint Global Coordinators (acting in good faith) that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

The provisions of this paragraph 2.1.2(iii) and any other terms of the Rights Issue relating to Qualifying Non-CREST Shareholders may be waived, varied or modified as regards specific Qualifying Non-CREST Shareholder(s) or on a general basis by the Company, with the agreement of the Joint Global Coordinators.

A Qualifying Non-CREST Shareholder who makes a valid acceptance and payment in accordance with this paragraph 2.1.2 is deemed to request that the New Shares to which they will become entitled be issued to them on the terms and conditions set out in this document and subject to the Memorandum and Articles.

(iv) *Payments*

All payments must be in pounds sterling and made by cheque or banker's draft made payable to "Computershare re Phoenix Rights Issue" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Cheques must be drawn on the personal account to which the Qualifying Non-CREST Shareholder (or their nominee) has sole or joint title to the funds. Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has inserted details of the name of the account holder and have either added the building society or bank branch stamp or have provided a supporting letter confirming the source of funds. The name of the account holder should be the same as the name of the shareholder shown on page 1 or page 4 of the Provisional Allotment Letter. Post-dated cheques will not be accepted. Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct Computershare to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be paid on payments made before they are due. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. Return of a completed Provisional Allotment Letter will constitute a warranty that the cheque will be honoured on first presentation. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If the New Shares have already been allotted to a Qualifying Non-CREST Shareholder prior to any payment not being so honoured upon first presentation or such acceptances being treated as invalid, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Shares on behalf of such Qualifying Non-CREST Shareholder and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Shares, and of all amounts payable by such Qualifying Non-CREST Shareholder pursuant to the terms of the Rights Issue in respect of the acquisition of such New Shares) on behalf of such Qualifying Non-CREST Shareholder. Neither the Company nor the Banks nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Non-CREST Shareholder as a result.

(v) *Holders of Provisional Allotment Letters who wish to take up any of their entitlements must make the representations and warranties set out in paragraph 2.7 below.*

2.1.3 *Money Laundering Regulations*

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the "**Money Laundering Regulations**"), the Receiving Agent, Computershare Investor Services PLC, may require verification of the identity of the person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If an application is made by a UK regulated broker or intermediary acting as agent

and which is itself subject to the Money Laundering Regulations, any verification of identity requirements is the responsibility of such broker or intermediary and not of the Registrar. In such case, the lodging agent's stamp should be inserted on the Provisional Allotment Letter. The person(s) (the "acceptor") who, by lodging a Provisional Allotment Letter with payment, and in accordance with the other terms as described above, accept(s) directly or indirectly, the allotment of the New Shares (the "relevant shares") comprised in such Provisional Allotment Letter (being the provisional allottee or, in the case of renunciation, the person named in such Provisional Allotment Letter) shall thereby be deemed to agree to provide the Registrar and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements and agree for the Registrar to make a search using a credit reference agency for the purpose of confirming such identity where deemed necessary. A record of the search will be retained.

If the Receiving Agent determines that the verification of identity requirements apply to an acceptance of an allotment and the verification of identity requirements have not been satisfied (which the Receiving Agent shall in its absolute discretion determine) by 11.00 a.m. on 9 July 2018, the Company may, with the consent of the Joint Global Coordinators, and without prejudice to any other rights of the Company: (i) treat the acceptance as invalid, in which event the application monies will be returned (at the applicant's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn; or (ii) may confirm the allotment of the relevant shares to the acceptor but (notwithstanding any other term of the Rights Issue) such shares will not be issued to him or registered in his name until the verification of identity requirements have been satisfied (which the Receiving Agent shall in its absolute discretion determine). If the acceptance is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares (and for that purpose the Company will be expressly authorised to act as agent of the acceptor). Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. The Receiving Agent is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied. Neither the Company, the Banks nor the Receiving Agent will be liable to any person for any loss suffered or incurred as a result of the exercise of any such discretion or as a result of any sale of relevant shares.

Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the acceptor that the Money Laundering Regulations will not be breached by acceptance of such remittance and an undertaking to provide promptly to the Registrar such information as may be specified by the Registrar as being required for the purpose of the Money Laundering Regulations. If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your acceptance being treated as invalid or in delays in the despatch of a receipted fully paid Provisional Allotment Letter, share certificate or other documents relating to the Rights Issue (as applicable).

The verification of identity requirements will not usually apply:

(i) if the acceptor is an organisation required to comply with the Money Laundering Directive 2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing;

(ii) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations;

(iii) the applicant is a company whose securities are listed on a regulated market subject to specified disclosure obligations;

(iv) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or

(v) if the aggregate subscription price for the relevant shares is less than €15,000 (approximately £12,000).

Where the verification of identity requirements apply, please note the following as this will assist in satisfying the requirements. Satisfaction of the verification of identity requirements may be facilitated in the following ways:

(a) if payment is made by cheque or banker's draft in pounds sterling drawn on a branch in the UK of a bank or building society and bears a UK bank sort code number in the top right-hand corner, the following applies. Cheques should be made payable to "Computershare re Phoenix Rights Issue" and crossed "A/C payee only". Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has inserted details of the name of the account holder and have either added the building society or bank branch stamp or have provided a supporting letter confirming the source of funds. The name of the account holder should be the same as the name of the shareholder shown on page 1 or page 4 of the Provisional Allotment Letter;

(b) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti money-laundering regulation in a country which is a member of the Financial Action Task Force (the non-EU members of which are Argentina, Australia, Brazil, Canada, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, the Russian Federation, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE), the agent should provide written confirmation with the Provisional Allotment Letter that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrar or the relevant authority; or

(c) if a Provisional Allotment Letter is lodged by hand by the acceptor in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address (for example, a recent bank statement).

In order to confirm the acceptability of any written assurance referred to in (b) above or any other case, the acceptor should contact Computershare on the Shareholder Helpline on 0370 707 4040 (from within the UK) or on +44 (0)370 707 4040 (if calling from outside the UK). Calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

2.1.4 ***Dealings in Nil Paid Rights***

Assuming the Rights Issue becomes unconditional, dealings on the LSE in the Nil Paid Rights are expected to commence at 8.00 a.m. on 26 June 2018. A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed on it and delivery of the letter to the transferee or to a stockbroker, bank or other appropriate financial adviser. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil paid, is expected to be 11.00 a.m. on 9 July 2018.

2.1.5 ***Dealings in Fully Paid Rights***

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and delivering it, by post or by hand (during normal business hours) to Computershare, Corporate Actions Projects, Bristol BS99 6AH, by not later than 11.00 a.m. on 9 July 2018. To do this, Qualifying Non-CREST Shareholders will need to have their fully paid Provisional Allotment Letters returned to them after acceptance has been effected by Computershare. However, fully paid Provisional Allotment Letters will not be returned to Qualifying Non-CREST Shareholders unless their return is requested by ticking the appropriate box on the Provisional Allotment Letter. After 9 July 2018, the New Shares will be in registered form and transferable in the usual form (see paragraph 2.1.10 below), or if they have been issued or converted into uncertificated form as Depositary Interests, in electronic form under the CREST system.

2.1.6 *Renunciation and splitting of Provisional Allotment Letters*

Qualifying Non-CREST Shareholders who wish to transfer all of their Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter (if it is not already marked "Original Duly Renounced") and passing the entire Provisional Allotment Letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form and the Nil Paid Rights or Fully Paid Rights (as appropriate) comprised in the Provisional Allotment Letter may be transferred by delivery of the Provisional Allotment Letter to the transferee. The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 11.00 a.m. on 9 July 2018, and after such date the New Shares will be in registered form, transferable by written instrument of transfer in the usual common form or, if they have been issued in or converted into uncertificated form as Depositary Interests, in electronic form under the CREST system. Qualifying Non-CREST Shareholders should note that fully paid Provisional Allotment Letters will not be returned to such Qualifying Non-CREST Shareholders unless their return is requested.

If a holder of a Provisional Allotment Letter wishes to have only some of the New Shares registered in his name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he may have the Provisional Allotment Letter split, for which purpose he or his agent must complete and sign Form X on the Provisional Allotment Letter. The Provisional Allotment Letter must then be delivered by post or by hand (during normal business hours only) to Computershare, Corporate Actions Projects, Bristol BS99 6AH, by not later than 3.00 p.m. on 5 July 2018, to be cancelled and exchanged for the number of split Provisional Allotment Letters required. The number of split Provisional Allotment Letters required and the number of Nil Paid Rights or (if appropriate) Fully Paid Rights to be comprised in each split letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked "Original Duly Renounced" before issue. The aggregate number of Nil Paid Rights or (as appropriate) Fully Paid Rights comprised in the split Provisional Allotment Letters must equal the number of New Shares set out in the original Provisional Allotment Letter (less the number of New Shares representing rights that the holder wishes to take up if taking up his entitlement in part). The split Provisional Allotment Letter(s) (representing the New Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

The Company reserves the right to refuse to register any renunciation in favour of any person in respect of which the Company believes such renunciation may violate applicable legal or regulatory requirements, including (without limitation) any renunciation in the name of any person with an address outside the UK.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights, without transferring the remainder, should complete Form X on the original Provisional Allotment Letter and return it, together with a covering letter confirming the number of rights to be taken up and a cheque or banker's draft in pounds sterling to pay for this number of New Shares, by post or by hand (during normal business hours only) to Computershare, Corporate Actions Projects, Bristol BS99 6AH. In this case, the Provisional Allotment Letter and payment must be received by the Receiving Agent by 11.00 a.m. on 9 July 2018.

2.1.7 *Registration in names of Qualifying Non-CREST Shareholders*

A Qualifying Non-CREST Shareholder who wishes to have all the New Shares to which he is entitled registered in his name must accept and make payment for such allotment in accordance with the provisions set out in this document and the Provisional Allotment Letter but need take no further action. A share certificate in respect of the New Shares subscribed for is expected to be sent to such Qualifying Shareholders by not later than 16 July 2018.

2.1.8 *Registration in names of persons other than originally entitled Qualifying Non-CREST Shareholders*

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying Shareholders(s) originally entitled, the renouncee or his agent(s) must complete Form Y on the Provisional Allotment Letter (unless the renounce is a CREST member who wishes to hold such New Shares in uncertificated form as Depositary Interests, in which case Form X and the CREST Deposit Form must be completed (see paragraph 2.2 below)) and deliver the entire Provisional

Allotment Letter, when fully paid, by post or by hand (during normal business hours) to Computershare, Corporate Actions Projects, Bristol BS99 6AH, by not later than the latest time for registration of renunciations, is 11.00 a.m. on 9 July 2018. Registration cannot be effected unless and until the New Shares comprised in a Provisional Allotment Letter are fully paid.

The New Shares comprised in several renounced Provisional Allotment Letters may be registered in the name of one holder (or joint holders) if Form Y on the Provisional Allotment Letter is completed on one Provisional Allotment Letter (the "**Principal Letter**") and all the Provisional Allotment Letters are delivered in one batch. Details of each Provisional Allotment Letter (including the Principal Letter) should be listed in a separate letter.

2.1.9 ***Deposit of Nil Paid Rights or Fully Paid Rights into CREST***

The Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into Nil Paid Rights or Fully Paid Rights in respect of New Depositary Interests, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Similarly, Nil Paid Rights or (as appropriate) Fully Paid Rights held in respect of New Depositary Interests in CREST may be converted into certificated form, that is, withdrawn from CREST. Subject as provided in the next following paragraph or in the Provisional Allotment Letter, normal CREST procedures and timings apply in relation to any such conversion. You are recommended to refer to the CREST Manual and Deed Poll for details of such procedures.

The procedure for depositing the Nil Paid Rights or (as appropriate) Fully Paid Rights represented by the Provisional Allotment Letter into Nil Paid Rights or Fully Paid Rights in respect of New Depositary Interests into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced, is as follows: Form X and the CREST Deposit Form (both on the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CREST Courier and Sorting Service ("**CCSS**"). In addition, the normal CREST Stock Deposit procedures will need to be carried out, except that: (i) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS; and (ii) only the whole of the Nil Paid Rights or (as appropriate) the Fully Paid Rights represented by the Provisional Allotment Letter may be converted into Nil Paid Rights or Fully Paid Rights in respect of New Depositary Interests in CREST. If you wish to deposit some only of the Nil Paid Rights or (as appropriate) the Fully Paid Rights represented by the Provisional Allotment Letter into Nil Paid Rights or Fully Paid Rights in respect of New Depositary Interests in CREST, you must first apply for split Provisional Allotment Letters by following the instructions in paragraph 2.1.2 above. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (as defined in the CREST Regulations) must not be used.

A holder of the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) represented by a Provisional Allotment Letter who is proposing to convert those rights into Nil Paid rights or Fully Paid Rights in respect of the New Depositary Interests in CREST (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 4.30 p.m. on 3 July 2018. **In particular, having regard to processing times in CREST and on the part of the Receiving Agent, the latest recommended time for depositing a renounced Provisional Allotment Letter (with Form X and the CREST Deposit Form on the Provisional Allotment Letter duly completed) with the CCSS is 3.00 p.m. on 4 July 2018 (in order to enable the person acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in respect of New Depositary Interests in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 9 July 2018).**

When Form X and the CREST Deposit Form (on the Provisional Allotment Letter) have been completed, the title to the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letters will cease to be renounceable or transferable by delivery, and, for the avoidance of doubt, any entries in Form Y will not subsequently be recognised or acted upon by Computershare. All renunciations or transfers of Nil Paid Rights or Fully Paid Rights must be effected through the CREST system once such Nil Paid Rights or Fully Paid Rights have been deposited into CREST.

CREST-sponsored members should contact their CREST sponsor as only their CREST sponsor will be able to take the necessary action to take up the entitlement or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of the CREST sponsored member.

2.1.10 ***Issue of New Shares in definitive form***

Definitive share certificates in respect of the New Shares to be held in certificated form are expected to be despatched by post by 16 July 2018 at the risk of the persons entitled thereto to Qualifying Non-CREST Shareholders (or their transferees who hold Fully Paid Rights in certificated form), or in the case of joint holdings, to the first-named Shareholders, at their registered address (unless lodging agent details have been completed on the Provisional Allotment Letter). After despatch of the definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer of the New Shares will be certified by the Receiving Agent against the register.

2.2 Action to be taken by Qualifying Depositary Interest Holders in relation to Nil Paid Rights and Fully Paid Rights in CREST

2.2.1 ***General***

It is expected that each Qualifying Depositary Interest Holder (who is not an Excluded Overseas Shareholder) will receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights on 26 June 2018. It is expected that such rights will be enabled as soon as practicable after 8.00 a.m. on 26 June 2018. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Depositary Interests held at the close of business on the Record Date by the Qualifying Depositary Interest Holder in respect of which the Nil Paid Rights are provisionally allotted.

The maximum number of New Depositary Interests that a Qualifying Depositary Interest Holder may take up is that which has been provisionally allotted to that Qualifying Depositary Interest Holder and for which he receives a credit of entitlement into his stock account in CREST. The minimum number of New Depositary Interests a Qualifying Depositary Interest Holder may take up is one.

The Nil Paid Rights will constitute a separate security for the purposes of CREST and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If, for any reason, it is impracticable to credit the stock accounts of Qualifying Depositary Interest Holders, or to enable the Nil Paid Rights as soon as practicable after 8.00 a.m. on 26 June 2018, Provisional Allotment Letters shall, unless the Company determines otherwise, be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document will be adjusted as appropriate. **References to dates and times in this document should be read as subject to any such adjustment.** The Company will make an appropriate announcement to a Regulatory Information Service giving details of any revised dates but Qualifying Depositary Interest Holders may not receive any further written communication.

Depositary Interest Holders who wish to take up their entitlements in respect of or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST (including CREST members who wish to effect a Cashless Take-up) should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST-sponsored member, you should consult your CREST sponsor if you wish to take up your entitlement, as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights (including effecting a Cashless Take-up).

2.2.2 ***Procedure for acceptance and payment***

(i) *MTM instructions*

Qualifying Depositary Interest Holders who do not have a registered address in an Excluded Territory or a Restricted Territory and who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST-sponsored members, procure that their CREST sponsor sends) an MTM instruction to Euroclear that, on its settlement, will have the following effect:

(a) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;

(b) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the real time gross settlement system (the "**RTGS**" payment mechanism (as this term is defined in the CREST Manual)), in favour of the RTGS settlement bank of the Receiving Agent (on behalf of the Depositary) in pounds sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in paragraph 2.2.2(i)(a) above; and

(c) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the Qualifying Depositary Interest Holder is entitled on taking up his Nil Paid Rights referred to in paragraph 2.2.2(i)(a) above.

(ii) *Contents of MTM instructions*

The MTM instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

(a) the number of Nil Paid Rights to which the acceptance relates;

(b) the participant ID of the accepting Qualifying Depositary Interest Holder;

(c) the member account ID of the accepting Qualifying Depositary Interest Holder from which the Nil Paid Rights are to be debited;

(d) the participant ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 3RA42;

(e) the member account ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is Phoenix;

(f) the number of Fully Paid Rights that the Qualifying Depositary Interest Holder is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;

(g) the amount payable by means of the CREST assured payment arrangements on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in paragraph 2.2.2(ii)(a) above;

(h) the intended settlement date. This must be on or before 11.00 a.m. on 9 July 2018;

(i) the Nil Paid Rights ISIN, which is KYG7058S1158;

(j) the Fully Paid Rights ISIN, which is KYG7058S1075;

(k) the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST;

(l) a contact name and telephone number in the shared note field; and

(m) a priority of at least 80.

(iii) *Valid acceptance*

An MTM instruction complying with each of the requirements as to authentication and contents set out in paragraph 2.2.2(ii) above will constitute a valid acceptance where either:

(a) the MTM instruction settles by not later than 11.00 a.m. on 9 July 2018; or

(b) at the discretion of the Company:

(1) the MTM instruction is received by Euroclear by not later than 11.00 a.m. on 9 July 2018; and

(2) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting Qualifying Depositary Interest Holder specified in the MTM instruction at 11.00 a.m. on 9 July 2018; and

(3) the relevant MTM instruction settles by 11.00 a.m. on 9 July 2018 (or such later time and/or date as the Company may determine).

An MTM instruction will be treated as having been received by Euroclear for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at Euroclear of the network provider used by the Qualifying Depositary Interest Holder (or by the CREST-sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

As soon as practicable after 11:00 a.m. on 9 July 2018, the Receiving Agent (on behalf of the Depositary) will calculate the number of Nil Paid Rights which the Qualifying Depositary Interest Holders have indicated (pursuant to their respective MTM instructions) that they wish to take up and the Depositary will complete and submit its Provisional Allotment Letter to the Receiving Agent reflecting such instructions, together with a cheque drawn for the appropriate amounts (in respect of Nil Paid Rights), in accordance with the procedure set out in this paragraph 2.2.2.

The provisions of this paragraph 2.2.2(iii) and any other terms of the Rights Issue relating to Qualifying Depositary Interest Holders may be waived, varied or modified as regards specific Qualifying Depositary Interest Holder or on a general basis by the Company.

(iv) *Representations, warranties and undertakings of CREST members*

A Qualifying Depositary Interest Holder or CREST-sponsored member who makes a valid acceptance in accordance with this paragraph 2.2.2 represents, warrants and undertakes to the Depositary, the Company and the Banks that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 11.00 a.m. on 9 July 2018. In particular, the Qualifying Depositary Interest Holder or CREST-sponsored member represents, warrants and undertakes that, at 11.00 a.m. on 9 July 2018 (or until such later time and date as the Company may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST-sponsored members should contact their CREST sponsor if they are in any doubt. Qualifying Depositary Interest Holders and CREST-sponsored members taking up entitlements must make the representations and warranties set out in paragraph 2.7 below.

If there is insufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account of a Qualifying Depositary Interest Holder or CREST-sponsored member for such amount to be debited or the Qualifying Depositary Interest Holder's or CREST-sponsored member's acceptance is otherwise treated as invalid and New Depositary Interests have already been allotted to such Qualifying Depositary Interest Holder or CREST-sponsored member, the Company may (in its absolute discretion as to the manner, timing and terms) make arrangements for the sale of such New Depositary Interests on behalf of that Qualifying Depositary Interest Holder or CREST-sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that it has suffered as a result of the acceptance being treated as invalid and of the expenses of sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Depositary Interests, and of all amounts payable by the Qualifying Depositary Interest Holder or CREST-sponsored member pursuant to the Rights Issue in respect of the acquisition of such New Depositary Interests) on behalf of such Qualifying Depositary Interest Holder or CREST-sponsored member. Neither the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Depositary Interest Holder or CREST-sponsored member as a result.

(v) *CREST procedures and timings*

Qualifying Depositary Interest Holders and CREST sponsors (on behalf of CREST-sponsored members) should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the Qualifying Depositary Interest Holder concerned to take (or, if a CREST-sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 a.m. on 9 July 2018. In

connection with this, Qualifying Depositary Interest Holder and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vi) *Qualifying Depositary Interest Holders' undertaking to pay*

Qualifying Depositary Interest Holder or CREST-sponsored member who makes a valid acceptance in accordance with the procedures set out in this paragraph 2.2.2 undertakes to pay to the Receiving Agent (on behalf of the Depositary), or procure the payment to the Receiving Agent (on behalf of the Depositary) of, the amount payable in pounds sterling on acceptance in accordance with the above procedures or in such other manner as the Receiving Agent (on behalf of the Depositary) may require (it being acknowledged that, where payment is made by means of the RTGS payment mechanism (as defined in the CREST Manual), the creation of a RTGS payment obligation in pounds sterling in favour of the Receiving Agent's RTGS settlement bank (as defined in the CREST Manual) in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created: (i) discharge in full the obligation of the Qualifying Depositary Interest Holder (or CREST-sponsored member) to pay the amount payable on acceptance); and (ii) request that the Fully Paid Rights and/or New Depositary Interests to which he will become entitled be issued to him on the terms set out in this document and subject to the Deed Poll.

If the payment obligations of the relevant Qualifying Depositary Interest Holder or CREST-sponsored member in relation to such New Shares are not discharged in full and such New Depositary Interests have already been allotted to the Qualifying Depositary Interest Holder or CREST-sponsored member, the Company and the Depositary may (in their absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Depositary Interests on behalf of the Qualifying Depositary Interest Holder or CREST-sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Depositary Interests and underlying shares, and of all amounts payable by such Qualifying Depositary Interest Holder or CREST-sponsored member pursuant to the terms of the Rights Issue in respect of the acquisition of such New Depositary Interests or underlying shares) or an amount equal to the original payment of the Qualifying Depositary Interest Holder or CREST-sponsored member. Neither the Company, the Depositary nor the Banks nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by the Qualifying Depositary Interest Holder or CREST-sponsored member as a result.

(vii) *Company's discretion as to rejection and validity of acceptances*

The Company (as exercised by the Depositary) may agree with the consent of the Joint Global Coordinators to:

(a) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2. Where an acceptance is made as described in this paragraph 2.2.2, which is otherwise valid, and the MTM instruction concerned fails to settle by 11.00 a.m. on 9 July 2018 (or by such later time and date as the Company has determined), the Company shall be entitled to assume, for the purposes of its right to reject an acceptance contained in this paragraph 2.2.2, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2 unless the Company is aware of any reason outside the control of the Qualifying Depositary Interest Holder or CREST sponsor (as appropriate) for the failure to settle;

(b) treat as valid (and binding on the Qualifying Depositary Interest Holder or CREST-sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 2.2.2;

(c) accept an alternative properly authenticated dematerialised instruction from a Qualifying Depositary Interest Holder or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company and the Joint Global Coordinators may determine;

(d) treat a properly authenticated dematerialised instruction (in this paragraph 2.2.2(vii)(d) (the "first instruction") as not constituting a valid acceptance if, at the time at which the Receiving Agent (on behalf of the Depositary) receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or the Receiving Agent (on behalf of the Depositary) has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

(e) accept an alternative instruction or notification from a Qualifying Depositary Interest Holder or CREST-sponsored member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any Qualifying Depositary Interest Holder or CREST-sponsored member or (where applicable) CREST sponsor, the Qualifying Depositary Interest Holder or CREST-sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by the Receiving Agent (on behalf of the Depositary) in connection with CREST.

2.2.3 ***Money Laundering Regulations***

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent (on behalf of the Depositary) is entitled to take reasonable measures to establish the identity of the person or persons (or the ultimate controller of such person or persons) on whose behalf you are making the application. and any submission of an MTM instruction is agreeing for Computershare to make a search via a credit reference agency where deemed necessary. A record of search results will be retained. You must therefore contact the Receiving Agent before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent (on behalf of the Depositary) any information the Receiving Agent (on behalf of the Depositary) may specify as being required for the purposes of the verification of the identity requirements in the Money Laundering Regulations or the FSMA. Pending the provision of such information and other evidence as Computershare may require to satisfy the verification of identity requirements, the Receiving Agent (on behalf of the Depositary), having consulted with the Company, may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If such information and other evidence of identity has not been provided within a reasonable time, then the Receiving Agent (on behalf of the Depositary) will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of the Company and/or the Banks to take proceedings to recover any loss suffered by any of them as a result of failure by the applicant to provide such information and other evidence.

2.2.4 ***Dealings in Nil Paid Rights in CREST***

Assuming the Rights Issue becomes unconditional, dealings in the Nil Paid Rights on the LSE are expected to commence as soon as practicable after 8.00 a.m. on 26 June 2018. A transfer (in whole or in part) of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 9 July 2018.

2.2.5 ***Dealings in Fully Paid Rights in CREST***

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last time for settlement of any transfer of Fully Paid Rights in CREST is expected to be 11.00 a.m. on 9 July 2018. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 9 July 2018.

From 9 July 2018, the New Depositary Interests will be registered in the name(s) of the person(s) entitled to them in the Company's Depositary Interest Register and will be transferable in the usual way.

2.2.6 *Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST*

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by Euroclear of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights or, if appropriate, Fully Paid Rights from CREST is 4.30 p.m. on 3 July 2018, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights or, if appropriate, Fully Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 9 July 2018. You are recommended to refer to the CREST Manual for details of such procedures.

2.2.7 *Issue of New Depositary Interests in CREST*

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 9 July 2018 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New Depositary Interests will be issued to those persons registered as holding Fully Paid Rights in CREST not later than the close of business on the Business Day after the date on which the Fully Paid Rights are disabled. The Receiving Agent (on behalf of the Depositary) will instruct Euroclear to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to New Depositary Interests with effect as soon as practicable after 8.00 a.m. on 26 June 2018).

The New Depositary Interests will be created and issued pursuant to the Deed Poll entered into by the Depositary, which governs the relationship between the Depositary and the holders of Depositary Interests. A summary of the Deed Poll is set out in paragraph 13.1 ("*Deed Poll*") of Part XV ("*Additional Information*") of this document.

2.2.8 *Right to allot/issue in certificated form*

Despite any other provision of this document, the Company reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or New Shares in certificated form if it has first obtained the Joint Global Coordinators' consent. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

2.3 Special Dealing Service

2.3.1 *Qualifying Non-CREST Shareholders who wish to sell all of their entitlement using the Special Dealing Service*

Qualifying Non-CREST Shareholders who are individuals with a registered address in the United Kingdom or any other member state of the EEA and who wish to sell all of the Nil Paid Rights to which they are entitled may elect to do so using the Special Dealing Service. Such Qualifying Non-CREST Shareholders should complete and return the Provisional Allotment Letter in accordance with the instructions printed thereon, by post to Computershare at Corporate Actions Projects, Bristol BS99 6AH or by hand (during normal business hours only) to Computershare at The Pavilions, Bridgwater Road, Bristol BS13 8AE by not later than 3.00 p.m. on 2 July 2018, being the latest time and date for requesting the sale of Nil Paid Rights through the Special Dealing Service.

If you post your Provisional Allotment Letter within the United Kingdom by first-class post, it is recommended that you allow at least four days for delivery. Please note that Computershare will charge a commission of 0.35 per cent. of the gross proceeds of sale of all of the Nil Paid Rights to which the Qualifying Non-CREST Shareholder is entitled, subject to a minimum of £25, for effecting such sale through the Special Dealing Service.

Under the Special Dealing Service, Computershare will collate all the instructions from Qualifying Non-CREST Shareholders wishing to use the service to sell all their Nil Paid Rights up to 3.00 p.m. on 2 July 2018 and instruct a broker to sell all such Nil Paid Rights in accordance with the Special Dealing Service Terms and Conditions which will accompany the Provisional Allotment Letter.

Computershare will aggregate instructions from all Qualifying Non-CREST Shareholders who have elected to sell all of their Nil Paid Rights under the Special Dealing Service that are received (or are treated as having been received). Such Nil Paid Rights in respect of which an instruction is received may be sold in several transactions and on separate days. Qualifying Non-CREST Shareholders would receive the average price obtained for the sale of all of the Nil Paid Rights aggregated for sale purposes in accordance with the above. This may result in Qualifying Non-CREST Shareholders who choose to sell all of their Nil Paid Rights through the Special Dealing Service receiving a higher or lower price than if their Nil Paid Rights were sold separately. This may also result in Qualifying Non-CREST Shareholders who choose to sell all of their Nil Paid Rights through the Special Dealing Service receiving a higher or lower price for their Nil Paid Rights than if all of their Nil Paid Rights had been sold in a single transaction or on a single day and such Qualifying Non-CREST Shareholders may receive the proceeds of sale later than if their Nil Paid Rights had been sold by another broker on an individual basis. A Qualifying Non-CREST Shareholder who is considering giving an instruction to sell all of their Nil Paid Rights under the Special Dealing Service should note that there is no guarantee that the sale of Nil Paid Rights will be effected under the Special Dealing Service in relation to their Nil Paid Rights.

Whether such Qualifying Non-CREST Shareholder's Nil Paid Rights will be sold under the Special Dealing Service will depend on whether it is expected that the proceeds from the sale of the Nil Paid Rights of the majority of the Qualifying Non-CREST Shareholders who elect to sell all of their Nil Paid Rights and whose instructions are aggregated for sale purposes will exceed the commissions referred to above. If a Qualifying Non-CREST Shareholder's Nil Paid Rights are sold but the proceeds obtained for the sale of such Nil Paid Rights are less than the commissions referred to above, such Qualifying Non-CREST Shareholder will not receive any proceeds.

2.3.2 *Qualifying Non-CREST Shareholders who wish to effect a Cashless Take-up using the Special Dealing Service*

Qualifying Non-CREST Shareholders who are individuals with a registered address in the United Kingdom or any other member state of the EEA can elect to sell a sufficient number of Nil Paid Rights to raise money to effectuate a cashless take-up of their remaining rights through the Special Dealing Service operated by Computershare.

Any such Qualifying Non-CREST Shareholders who wish to effect a Cashless Take-up should complete and return the Provisional Allotment Letter in accordance with the instructions printed thereon, by post to Computershare at Corporate Actions Projects, Bristol BS99 6AH or by hand (during normal business hours only) to Computershare at The Pavilions, Bridgwater Road, Bristol BS13 8AE by not later than 3.00 p.m. on 2 July 2018, being the latest time and date for requesting a Cashless Take-up through the Special Dealing Service.

If you post your Provisional Allotment Letter within the United Kingdom by first-class post, it is recommended that you allow at least four days for delivery. Please note that Computershare will charge a commission of 0.35 per cent. of the gross proceeds of sale of such number of Nil Paid Rights as is required to effect a Cashless Take-up for a Qualifying Non-CREST Shareholder, subject to a minimum of £25.

Under the Special Dealing Service, Computershare will collate all the instructions from Qualifying Non-CREST Shareholders wishing to use the service to effect a Cashless Take-up up to 3.00 p.m. on 2 July 2018 and instruct a broker to sell sufficient Nil Paid Rights for Qualifying Non-CREST Shareholders to take up the remainder of their Nil Paid Rights in accordance with the Special Dealing Service Terms and Conditions which will accompany the Provisional Allotment Letter. Computershare will aggregate instructions from all Qualifying Non-CREST Shareholders who elect a Cashless Take-up under the Special Dealing Service that are received (or are treated as having been received). Such number of Nil Paid Rights which need to be sold to effect a Cashless Take-up for Qualifying Non-CREST Shareholders under the Special Dealing Service may be sold in several transactions and on separate days. Qualifying Non-CREST Shareholders would receive the average price obtained for the sale of all of the Nil Paid Rights aggregated for sale purposes in accordance with the above. This may result in Qualifying Non-CREST Shareholders who choose to effect a Cashless Take-up under the Special Dealing Service receiving a higher or lower price than if their Nil Paid Rights were sold separately. This may also result in Qualifying Non-CREST Shareholders who choose to effect a Cashless Take-up under the Special Dealing Service receiving a higher or lower price for their Nil Paid Rights than if such Nil Paid Rights had been sold in a single transaction or on a single day.

A Qualifying Non-CREST Shareholder who is considering giving an instruction for Cashless Take-up under the Special Dealing Service should note that there is no guarantee that Cashless Take-up will be effected under the Special Dealing Service in relation to his Nil Paid Rights. Whether such Qualifying Non-CREST Shareholder's Nil Paid Rights will be sold under the Special Dealing Service will depend on whether it is expected that the proceeds from the sale of the Nil Paid Rights of the majority of the Qualifying Non-CREST Shareholders who elect for a Cashless Take-up under the Special Dealing Service and whose instructions are aggregated for sale purposes will be sufficient, after deducting the commissions referred to above, to take up one New Share for each of the majority of the Qualifying Non-CREST Shareholders. If a Qualifying Non-CREST Shareholder's Nil Paid Rights are sold but the proceeds obtained for the sale of the Nil Paid Rights are not sufficient, after the deduction of the commissions referred to above, to acquire any New Shares at the Issue Price, such Qualifying Non-CREST Shareholder will not receive any New Shares.

2.3.3 *General*

By giving an instruction under the Special Dealing Service, a Qualifying Non-CREST Shareholder will be deemed to have represented, warranted and undertaken that he will not thereafter seek to take any action in respect of his Provisional Allotment Letter. By giving your instruction under the Special Dealing Service, you will be deemed to have renounced your Nil Paid Rights, as applicable to your instruction.

The Special Dealing Service Terms and Conditions will be posted to Qualifying Non-CREST Shareholders together with the Provisional Allotment Letter. A Qualifying Non-CREST Shareholder who is eligible for and elects to use the Special Dealing Service agrees to the terms and conditions of the Rights Issue set out in this document and the Special Dealing Service Terms and Conditions (including how the price for the sale of their Nil Paid Rights is calculated and the commissions that will be deducted from the process of their sale of such Nil Paid Rights). Qualifying Non-CREST Shareholders using the Special Dealing Service should note that they will be clients of Computershare and not of the Company when using such service. Computershare's liability to such a Qualifying Non-CREST Shareholder and its responsibility for providing the protections afforded by the UK regulatory regime to clients for whom such services are provided is as set out in the Special Dealing Service Terms and Conditions and neither Computershare nor Phoenix shall have any liability or responsibility to a Qualifying Non-CREST Shareholder using the Special Dealing Service, except as set out in those Special Dealing Service Terms and Conditions. None of Phoenix, Computershare or their agents shall be responsible to any loss or damage (whether actual or alleged) arising from the terms or timing of any sale, any settlement issues arising from any sale, any exercise of discretion in relation to any sale, or any failure to procure any sale of Nil Paid Rights pursuant to the Special Dealing Service.

Phoenix, Computershare and/or their agents shall each have sole discretion to determine the eligibility of Qualifying Non-CREST Shareholders in relation to the Special Dealing Service and may each in their sole discretion interpret instructions (including handwritten markings) on the Provisional Allotment Letter, and none of Phoenix, Computershare or their agents shall be responsible for any loss or damage (whether actual or alleged) arising from any such exercise of discretion. All remittances will be sent by post, at the risk of the Qualifying Non-CREST Shareholder entitled thereto, to the registered address of the relevant Qualifying Non-CREST Shareholder (or, in the case of joint holders, to the address of the joint holder whose name stands first in the Company's register of members). No interest will be payable on any proceeds received from the sale of Nil Paid Rights under the Special Dealing Service.

Phoenix, Computershare and/or their agents cannot offer financial, legal, tax or investment advice on the Special Dealing Service. The Special Dealing Service is an "execution only" service and not a recommendation to buy or sell the Nil Paid Rights. The Special Dealing Service Terms and Conditions apply to the Special Dealing Service. The value of the Shares and any income from them can fluctuate and, when sold, investors may receive less than the original amount invested. Past performance is not a guide to future returns. The Special Dealing Service is provided by Computershare which is authorised by the FCA.

2.4 Procedure in respect of rights not taken up (whether certificated or in CREST) and withdrawal

2.4.1 *Procedure in respect of Rights Issue entitlements not taken up*

If an entitlement to New Shares is not validly taken up by 11.00 a.m. on 9 July 2018, in accordance with the procedure laid down for acceptance and payment (including because Qualifying Depositary

Interest Holders have not validly taken up their rights to New Depositary Interests), then that Provisional Allotment Letter will be deemed to have been declined and will lapse. The Banks will endeavour to procure, by not later than 4.30 p.m. on the second Dealing Day after the last date of acceptance of the Rights Issue, subscribers for all (or as many as possible) of those New Shares and New Depositary Interests not taken up, at a price per New Share which is at least equal to the aggregate of the Issue Price and the expenses of procuring such subscribers (including any applicable brokerage and commissions and amounts in respect of VAT).

Notwithstanding the above, the Banks may cease to endeavour to procure any such subscribers if, in their absolute opinion (acting in good faith), it is unlikely that any such subscribers can be procured at such a price and by such a time. If and to the extent that subscribers for New Shares and/or New Depositary Interests cannot be procured on the basis outlined above, the relevant New Shares and/or New Depositary Interests will be subscribed for by the Banks or sub-underwriters (if any) at the Issue Price pursuant to the terms of the Sponsor and Underwriting Agreement.

Any premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any applicable brokerage and commissions and amounts in respect of VAT) shall be paid (subject as provided in this paragraph 2.4):

(i) where the Nil Paid Rights were, at the time they were not taken up, represented by a Provisional Allotment Letter, to the person whose name and address appeared on the Provisional Allotment Letter;

(ii) where the Nil Paid Rights were, at the time they were not taken up, in uncertificated form, to the person registered by the Depositary as being entitled to those Nil Paid Rights at the time of their disablement in CREST; and

(iii) where an entitlement to New Shares and/or New Depositary Interests was not taken up by an Overseas Shareholder, to that Overseas Shareholder.

New Shares and New Depositary Interests for which subscribers are procured on this basis will be re-allotted to the subscribers and the aggregate of any premiums (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers, including any applicable brokerage and commissions and amounts in respect of VAT), if any, will be paid (without interest) to those persons entitled (as referred to above) pro rata to the relevant provisional allotments not taken up, save that amounts of less than £5 per holding will not be so paid but will be aggregated and ultimately paid to the Company. Holdings of Shares in certificated form and uncertificated form as Depositary Interests will be treated as separate holdings for these purposes. Cheques for the amounts due (if any) will be sent by post, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first-named holder in the case of joint holders), provided that, where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the creation of an assured payment obligation in favour of the relevant Qualifying Depositary Interest Holder's (or CREST-sponsored member's) RTGS settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism.

Any transactions undertaken pursuant to this paragraph 2.4 or paragraph 2.6.1 below shall be deemed to have been undertaken at the request of the persons entitled to the rights not taken up or other entitlements and neither the Company nor the Banks nor any other person procuring subscribers shall be responsible for any loss, expense or damage (whether actual or alleged) arising from the terms or timing of any such acquisition, any decision not to endeavour to procure subscribers or the failure to procure subscribers on the basis so described. The Banks will be entitled to retain any brokerage fees, commissions or other benefits received in connection with these arrangements.

It is a term of the Rights Issue that all New Shares validly taken up by subscribers under the Rights Issue may be allotted to such subscribers in the event that not all of the New Shares offered for subscription under the Rights Issue are taken up.

2.4.2 *Withdrawal rights*

Persons who have the right to withdraw their acceptances under Section 87Q(4) of the FSMA after a supplementary prospectus (if any) has been published and who wish to exercise such right of withdrawal must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile or any other form of electronic communication), which must include the full name and address of the person wishing to exercise such statutory withdrawal rights and, if such person is

a Qualifying Depositary Interest Holder, the participant ID and the member account ID of such Qualifying Depositary Interest Holder, with the Receiving Agent by post at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY or by email to PaymentQueries@Computershare.co.uk so as to be sent not later than two Business Days after the date on which the supplementary prospectus was published, withdrawal being effective as at posting of the written notice of withdrawal. Notice of withdrawal given by any other means or which is deposited with or received by the Receiving Agent after the expiry of such period will not constitute a valid withdrawal. The Company shall treat as valid any notice of withdrawal received through the post which bears a legible postmark on its envelope dated not later than the date falling two Business Days after the date on which such supplementary prospectus was published. The Company will not permit the exercise of withdrawal rights after payment by the relevant person for New Shares and/or Depositary Interests in full and the issue of such New Shares and/or New Depositary Interests to such person becoming unconditional, save as required by statute. In such circumstances, Shareholders are advised to consult their professional advisers including their legal advisers as this may be a matter of law.

Provisional allotments of entitlements to New Shares and/or New Depositary Interests which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Shares and/or New Depositary Interests will be subject to the provisions of paragraph 2.4.1 above as if the entitlement had not been validly taken up.

2.5 Taxation

The information contained in Part XIII ("*Taxation*") of this document is intended only as a general guide to the current tax position in the United Kingdom and the Cayman Islands and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Rights Issue in light of their own circumstances.

2.6 Overseas Shareholders

2.6.1 *General*

The making or acceptance of the proposed offer of Nil Paid Rights, Fully Paid Rights and/or New Shares and/or New Depositary Interests to persons who have registered addresses outside the UK, or who are resident in, or citizens of, countries other than the UK may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

It is also the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside the UK wishing to take up rights under or otherwise participate in the Rights Issue to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 2.6 are intended as a general guide only and any Overseas Shareholder who is in doubt as to his position should consult his professional adviser without delay.

Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict the ability of persons in the Excluded Territories to take up rights to New Shares and/or New Depositary Interests or otherwise participate in the Rights Issue due to the time and costs involved in the registration of this document and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

Receipt of this document and/or Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed.

New Shares will be provisionally allotted (nil paid) to all Shareholders on the register at the close of business on the Record Date, including Overseas Shareholders. However, Provisional Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST accounts of, Shareholders with registered addresses in any of the Restricted Territories or the Excluded Territories or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

Although Nil Paid Rights will be credited to the CREST accounts of all Qualifying Depositary Interest Holders, such crediting of Nil Paid Rights does not constitute an offer to Shareholders and, specifically, subject to certain exceptions, no offer is being made to Shareholders: (i) with a registered address, or resident or located, in any of the Restricted Territories or Excluded Territories; or (ii) in any jurisdiction in which it is unlawful to make or accept an offer to acquire the Shares. Depositary Interest Holders will be entitled to take up rights in the Rights Issue only if such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him nor should he in any event use the Provisional Allotment Letter or deal in Nil Paid Rights or Fully Paid Rights in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Nil Paid Rights and Fully Paid Rights may lawfully be used or dealt with without contravention of any registration or other legal requirements. In such circumstances, this document and the Provisional Allotment Letter are to be treated as sent for information only and should not be copied or redistributed.

Persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose stock account is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same or transfer Nil Paid Rights or Fully Paid Rights in or into any jurisdiction where to do so would or might contravene local security laws or regulations. If a Provisional Allotment Letter or a credit of Nil Paid Rights or Fully Paid Rights is received by any person in any such territory, or by his agent or nominee, he must not seek to take up the rights referred to in the Provisional Allotment Letter or in this document or renounce the Provisional Allotment Letter or transfer the Nil Paid Rights or Fully Paid Rights unless the Company determines that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, nominees and trustees) who does forward this document or a Provisional Allotment Letter or transfer Nil Paid Rights or Fully Paid Rights into any such territories (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 2.6.

Subject to paragraphs 2.6.2 to 2.6.5 below, any person (including, without limitation, agents, nominees and trustees) outside the UK wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 2.6 are intended as a general guide only and any Overseas Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

The Company reserves the right with the consent of the Joint Global Coordinators to treat as invalid and will not be bound to allot or issue any New Shares and/or New Depositary Interests in respect of any acceptance or purported acceptance of the offer of New Shares and/or New Depositary Interests which:

(i) appears to the Company or its agents to have been executed, effected or despatched from a Restricted Territory or an Excluded Territory unless the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement; or

(ii) in the case of a Provisional Allotment Letter, provides an address for delivery of the share certificates or other statements of entitlement or advice in an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to deliver such certificates, statements or advice or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or

(iii) in or, in the case of a credit of New Depositary Interests in CREST, to a Qualifying New Depositary Interest Holder or CREST-sponsored member whose registered address would be in a Restricted Territory or an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to make such a credit or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements.

The attention of Overseas Shareholders with registered addresses in a Restricted Territory or the Excluded Territories is drawn to paragraphs 2.6.2 to 2.6.5 below.

The provisions of paragraph 2.4.1 above will apply to Overseas Shareholders who do not take up New Shares provisionally allotted to them or are unable to take up New Shares provisionally allotted to them because such action would result in a contravention of applicable law or regulatory requirements. Accordingly, such Shareholders will be treated as Shareholders that have not taken up their entitlement for the purposes of paragraph 2.4.1 above and the Banks will use reasonable endeavours to procure subscribers for the relevant New Shares. The net proceeds of such sales (after deduction of expenses) will be paid to the relevant Shareholders pro-rated to their holdings of Existing Shares and/or Depositary Interests at the close of business on the Record Date as soon as practicable after receipt, except that (i) individual amounts of less than £5 per holding will not be distributed but will be aggregated and paid to charity and (ii) amounts in respect of fractions will not be distributed but will be retained for the benefit of the Company. Holdings of Shares in certificated and uncertificated form as Depositary Interests will be treated as separate holdings for these purposes. None of the Company, the Banks or any other person shall be responsible or have any liability whatsoever for any loss or damage (actual or alleged) arising from the terms or the timing of the acquisition or the procuring of it or any failure to procure subscribers.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Shareholder to participate in the Rights Issue on the terms and conditions set out in this document as if it were a Qualifying Shareholder if the Company with the consent of the Joint Global Coordinators is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question. If the Company is so satisfied, the Company will arrange for the relevant Shareholder to be sent a Provisional Allotment Letter if he is a Qualifying Non-CREST Shareholder or, if he is a Qualifying New Depositary Interest Holder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account.

Those Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 2.1.2 and 2.2.2 above.

Overseas Shareholders should note that all subscription monies must be paid in pounds sterling by cheque or banker's draft and should be drawn on a bank in the UK, made payable to "Computershare Investor Services (Cayman) Limited" and crossed "A/C payee only".

2.6.2 *Excluded Territories*

(i) *United States of America*

The Nil Paid Rights, the Fully Paid Rights, the New Shares, the New Depositary Interests and the Provisional Allotment Letters have not been and will not be registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

None of this document and the Provisional Allotment Letter constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any Nil Paid Rights, Fully Paid Rights, New Shares or New Depositary Interests in the United States. Subject to certain exceptions, neither this document nor a Provisional Allotment Letter will be sent to any Shareholder with a registered address in the United States. Subject to certain exceptions, Provisional Allotment Letters or renunciations thereof sent from or post-marked in the United States will be deemed to be invalid and all persons acquiring New Shares and wishing to hold such Shares in registered form must provide an address for registration of the New Shares issued upon exercise thereof outside the United States.

Subject to certain exceptions, any person who acquires New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights will be deemed to have declared, warranted and agreed, by accepting delivery of this document or the Provisional Allotment Letter taking up their entitlement or accepting delivery of the New Shares, the New Depositary Interests, the Nil Paid Rights or the Fully Paid Rights, that they are not, and that at the time of acquiring the New Shares, New Depositary Interests, the Nil Paid Rights or the Fully Paid Rights they will not be, in the United States or acting on behalf of, or for the account or benefit of a person on a non-discretionary basis in the United States or any State of the United States.

The Company reserves the right with the consent of the Joint Global Coordinators to treat as invalid any Provisional Allotment Letter (or renunciation thereof) that appears to the Company or its agents to have been executed in or despatched from the United States, or that provides an address in the United States for the acceptance or renunciation of the Rights Issue, or which does not make the warranty set out in the Provisional Allotment Letter to the effect that the person accepting and/or renouncing the Provisional Allotment Letter does not have a registered address and is not otherwise located in the United States and is not acquiring the Nil Paid Rights, the Fully Paid Rights, the New Shares or New Depositary Interests with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights, New Shares or New Depositary Interests in the United States or where the Company believes acceptance of such Provisional Allotment Letter may infringe applicable legal or regulatory requirements. The Company will not be bound to allot (on a non-provisional basis) or issue any New Shares, New Depositary Interests, Nil Paid Rights, or Fully Paid Rights to any person with an address in, or who is otherwise located in, the United States in whose favour a Provisional Allotment Letter or any Nil Paid Rights, Fully Paid Rights or New Shares may be transferred or renounced. In addition, the Company and the Joint Global Coordinators reserve the right to reject any MTM instruction sent by or on behalf of any CREST member with a registered address in the United States in respect of the Nil Paid Rights.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the New Shares, New Depositary Interests, the Nil Paid Rights, the Fully Paid Rights or the Provisional Allotment Letters within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the US Securities Act.

The provisions of paragraph 2.4 above will apply to any rights not taken up. Accordingly, subject to certain exceptions, Shareholders with a registered address in the United States will be treated as unexercising holders and the Banks will endeavour to procure on behalf of such unexercising holders subscribers for the New Shares.

(ii) *Australia*

No prospectus in relation to the New Shares has been or will be lodged with, or registered by, the Australian Securities Commission. Neither the New Shares or New Depositary Interests nor the Provisional Allotment Letters nor any Nil Paid Rights or Fully Paid Rights held in CREST may be offered for subscription or purchase, taken up, sold, renounced, transferred or delivered, directly or indirectly, nor may any invitation to subscribe for or buy or sell New Shares, New Depositary Interests or any Nil Paid Rights or Fully Paid Rights held in CREST be issued or any draft or definitive document in relation to any such offer, sale or invitation be distributed, in or into Australia or to or for the account or benefit of an Australian person. Accordingly, no offer of New Shares or New Depositary Interests is being made under this document or the Provisional Allotment Letters to Shareholders with registered addresses in, or to residents of, Australia. No Provisional Allotment Letters will be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST of, Qualifying Shareholders who have registered addresses in Australia.

(iii) *Canada*

The Nil Paid Rights, the Fully Paid Rights, the New Shares, New Depositary Interests and the Provisional Allotment Letters have not been and will not be registered under the securities legislation of any province or territory of Canada. None of the Provisional Allotment Letter, Nil Paid Rights, Fully Paid Rights, New Shares or New Depositary Interests will be directly or indirectly offered for subscription or purchase, taken up, sold, delivered, renounced or transferred in or into Canada. Therefore, the Rights Issue will not be made within Canada and Provisional Allotment Letters will not be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST on behalf of, any Shareholder with a registered address in Canada. Any person in Canada who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them.

(iv) *Japan*

The relevant clearances have not been and will not be obtained from the Ministry of Finance of Japan and no prospectus has been or will be lodged with, or registered by, the Ministry of Finance of Japan. Therefore, neither the Provisional Allotment Letters nor the New Shares, the New Depositary Interests nor any Nil Paid Rights or Fully Paid Rights held in CREST may, directly or indirectly, be offered or sold, taken up, or renounced in or into Japan or its

territories or possessions. No Provisional Allotment Letter will be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST of, Qualifying Shareholders whose registered address is in Japan.

(v) *Republic of South Africa*

Due to restrictions under South African securities laws, no Provisional Allotment Letters in relation to the New Shares will be sent to Shareholders who have registered addresses, or are resident or located, in the Republic of South Africa. Similarly, Nil Paid Rights will not be credited to the CREST accounts of Qualifying Depositary Interest Holders who have registered addresses, or are resident or located in the Republic of South Africa. Qualifying Shareholders who have a registered address, or are resident or located in the Republic of South Africa will not be entitled to take up Rights in the Rights Issue. The Provisional Allotment Letters, the Nil Paid Rights, the Fully Paid Rights, the New Shares and the New Depositary Interests may not be transferred or sold to, or renounced or delivered in, the Republic of South Africa. No offer of New Shares or New Depositary Interests is being made by virtue of this document or the Provisional Allotment Letters into the Republic of South Africa.

2.6.3 *Restricted Territories*

Provisional Allotment Letters will be posted to Qualifying Non-CREST Shareholders other than, subject to limited exceptions, to Shareholders with a registered address, or resident, in one of the Excluded Territories or one of the Restricted Territories and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying New Depositary Interest Holders. Such Qualifying New Depositary Interest Holders may, subject to the laws of the relevant jurisdictions, participate in the Rights Issue in accordance with the instructions set out in this document and, if relevant, the Provisional Allotment Letter. In cases where Overseas Shareholders do not take up Nil Paid Rights, their entitlements will be sold if possible in accordance with the provisions of paragraph 2.4.1 (‘‘*Procedure in respect of Rights Issue entitlements not taken up*’’) of this Part III (‘‘*Terms and Conditions of the Rights Issue*’’).

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, all countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

(i) *Member States of the EEA (other than the UK)*

In relation to each member state of the EEA (except the United Kingdom), no offer of New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights may be made to the public in that member state, except an offer of any New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights to the public in that member state:

(a) to legal entities which are qualified investors as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than ‘‘qualified investors’’ as defined in the Prospectus Directive), as permitted under the Prospectus Directive; and

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that such offer of New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights shall not require the Company or any of the Banks to publish a prospectus in that member state pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For this purpose, the expression an ‘‘offer to the public’’ in relation to any New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights in any member state means the communication in any form and by any means of sufficient information on the terms of the offer and any New Shares to be offered so as to enable an investor to decide to purchase or subscribe for any New Shares as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. ‘‘**Prospectus Directive**’’ means Directive 2003/71/EC (and amendments thereto, including by Directive 2010/73/EU), and includes any relevant implementing measure in the member state.

Although Nil Paid Rights will be credited to the CREST accounts of all Qualifying Depositary Interest Holders (including Shareholders with registered addresses in member states), such crediting of Nil Paid Rights does not constitute an offer to such Shareholders and any such

Qualifying Depositary Interest Holders will not be entitled to take up rights in the Rights Issue unless such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

(ii) *Hong Kong*

The New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights will not be offered or sold in Hong Kong by means of any document, other than: (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Ordinance**") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in this document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. This document is only directed at persons outside Hong Kong or "professional investors" as defined in the Ordinance and any rules made under that Ordinance.

(iii) *Singapore*

This document has not been registered as a prospectus with the Monetary Authority of Singapore. No person may offer or sell any New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights or cause such New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights to be made the subject of an invitation for subscription or purchase, and no person may circulate or distribute this document or any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of such New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights pursuant to an offer made under Section 275 of the SFA except: (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (b) where no consideration is or will be given for the transfer; (c) where the transfer is by operation of law; (d) as specified in Section 276(7) of the SFA; or (e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

2.6.4 *Waiver*

The provisions of this paragraph 2.6 and of any other terms of the Rights Issue relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company in its absolute and sole discretion. Subject to this, the provisions of this paragraph 2.6 supersede any terms of the Rights Issue inconsistent herewith. References in this paragraph 2.6 to Shareholders shall include references to the person or persons executing a Provisional Allotment Letter and, in the event of more than one person executing a Provisional Allotment Letter, the provisions of this paragraph 2.6 shall apply to them jointly and to each of them.

2.7 Representations and warranties relating to Shareholders

2.7.1 *Qualifying Non-CREST Shareholders*

Any person accepting and/or renouncing a Provisional Allotment Letter or requesting registration of the New Shares comprised therein represents and warrants to the Company and the Banks that, except where proof has been provided to the Company's satisfaction that such person's use of the Provisional Allotment Letter will not result in the contravention of any applicable regulatory or legal requirement in any jurisdiction: (i) such person is not accepting and/or renouncing the Provisional Allotment Letter, or requesting registration of the relevant New Shares, from within a Restricted Territory or the Excluded Territories; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Shares or to use the Provisional Allotment Letter in any manner in which such person has used or will use it; (iii) such person is not acting on a non-discretionary basis on behalf of, or for the account or benefit of, a person located within a Restricted Territory or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept or renounce was given; and (iv) such person is not acquiring Nil Paid Rights, Fully Paid Rights or New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Shares into a Restricted Territory or any Excluded Territory or any territory referred to in (ii) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter if it: (i) appears to the Company to have been executed in or despatched from a Restricted Territory or any Excluded Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if it believes the same may violate any applicable legal or regulatory requirement; (ii) provides an address in a Restricted Territory or any Excluded Territory (or any jurisdiction outside the UK in which it would be unlawful to deliver share certificates or sales advice); or (iii) purports to exclude the warranty required by this paragraph 2.7.1.

2.7.2 *Qualifying Depositary Interest Holders*

A Qualifying Depositary Interest Holder or CREST-sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part III ("*Terms and Conditions of the Rights Issue*") represents and warrants to the Company and the Banks that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable regulatory or legal requirement in any jurisdiction: (i) he is not within a Restricted Territory or any of the Excluded Territories; (ii) he is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Depositary Interests; (iii) he is not accepting on a non-discretionary basis for, on behalf of, or for the account or benefit of, a person located within a Restricted Territory or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) he is not acquiring Nil Paid Rights, Fully Paid Rights or New Depositary Interests with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Depositary Interests into a Restricted Territory or any Excluded Territory or any territory referred to in (ii) above.

The Depositary, as instructed by the Company, may treat as invalid any MTM instruction which appears to the Receiving Agent (on behalf of the Depositary) to have been despatched from any Restricted Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction of it or its agent believes the same may violate any applicable legal or regulatory requirement or purports to exclude the warranty required by this paragraph 2.7.2.

2.8 Times and dates

The Company shall, in its discretion and after consultation with its financial and legal advisers, be entitled to amend the dates that Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence or amend or extend the latest date for acceptance under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UKLA, and make an announcement via a Regulatory Information Service approved by the UKLA. **In the event such an announcement is made, Qualifying Shareholders may not receive any further written communication in respect of such amendment or extension of the dates included in this document.**

If a supplementary prospectus is issued by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Rights Issue specified in this document (or such later date as may be agreed between the Company and the Banks), the latest date

for acceptance under the Rights Issue shall be extended to the date that is three Business Days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

2.9 Governing law

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter and any non-contractual obligations arising out of or in relation to the Rights Issue shall be governed by, and construed in accordance with, English law.

2.10 Jurisdiction

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Rights Issue, this document or the Provisional Allotment Letter and any non-contractual obligations arising out of or in connection with them. By accepting rights under the Rights Issue in accordance with the instructions set out in this document and, in the case of Qualifying Non-CREST Shareholders, other than, subject to limited exceptions, those with a registered address, or resident in, one of the Excluded Territories or one of the Restricted Territories Shareholders only, the Provisional Allotment Letter, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART IV—BUSINESS OVERVIEW OF THE GROUP

Business overview

The Group specialises in the management and acquisition of closed life and pension funds and operates primarily in the UK. As at 31 December 2017, the Group had more than 5.6 million policyholders, £74 billion of assets under management and Solvency II Own Funds of £6.6 billion. Measured by number of policyholders, the Group is the UK's largest specialist consolidator of closed life insurance funds. The Group is primarily focused on the efficient management of in-force policies and currently writes limited new policies (as increments to existing policies, annuities for current policyholders when their policies mature and a limited set of direct protection policies).

The Group has three operating life insurance companies which hold policyholder assets: PLL, PLAL, and ALAC (together the "**Phoenix Life Companies**"). The Group's two principal management service companies, PGS and PGMS, aim to provide all administrative services required by the Phoenix Life Companies (or manage the provision of such services through outsourcing arrangements), including policy administration, information technology, finance and facility management services.

Following Completion, the Enlarged Group will have more than 10.4 million policyholders, £240 billion of assets under management and Solvency II Own Funds of £7.8 billion (on a shareholder capital basis) as at 31 December 2017. Following Completion, the Enlarged Group will have six operating life insurance companies which hold policyholders assets: PLL, PLAL, ALAC, SLAL, SLPF and SLIDAC. For further details on the business of Standard Life Assurance, see Part V ("*Business Overview of Standard Life Assurance*") of this document and for further details on the proposed strategic and financial benefits of the Acquisition, see paragraph 2.2 ("*Reasons for the Acquisition*") of Part I ("*Letter from the Chairman of Phoenix Group Holdings*") of this document.

History

Phoenix Group Holdings, previously named Liberty International Acquisition Company, then Liberty Acquisition Holdings (International) Company and then Pearl Group, was incorporated on 2 January 2008 under the laws of the Cayman Islands as an exempted company with limited liability, under registration number 202172. The Company was originally formed as a non-operating special purpose acquisition company by Berggruen Acquisition Holdings II Ltd and Marlin Equities IV, LLC to acquire one or more operating businesses with principal activities outside North America.

Units of the Company, comprising both the Shares and the warrants in respect of the Shares ("**Public Warrants**"), were initially admitted for trading on Euronext Amsterdam on 6 February 2008. However, the Shares and Public Warrants began to trade separately on 14 March 2008, following which the units ceased to exist as separate securities and were no longer listed.

On 29 June 2009, the Company announced that it had agreed to acquire PGH2 and its subsidiaries (the "**Pearl Group Acquisition**"). PGH2 was established in April 2005 in connection with the £1.1 billion acquisition of HHG plc's closed life companies by, amongst others, TDR Capital Nominees Limited and certain principals of Sun Capital Partners, and was further expanded in connection with the £5 billion acquisition of Resolution plc in May 2008 and the simultaneous sale of certain assets and companies held by Resolution plc to The Royal London Mutual Insurance Society Limited for £1.3 billion. The Pearl Group Acquisition completed on 2 September 2009 when the Company changed its name to Pearl Group.

The Shares were admitted to the Official List of the FCA and to trading on the LSE on 17 November 2009. The Company achieved a premium listing of the Shares on the LSE and admitted the Public Warrants to the Official List of the FCA and to trading on the LSE on 5 July 2010. The Group achieved inclusion into the FTSE 250 index on 20 September 2010. The Shares and Public Warrants were delisted from Euronext Amsterdam on 17 November 2010.

On 25 March 2014, the Group agreed to dispose of the entire issued share capital of Ignis Asset Management to Standard Life Investments, in return for total consideration of £390 million which was paid in cash upon completion of the divestment. Ignis Asset Management was the Group's asset management business, providing asset management and asset and liability management services to the Phoenix Life Companies as well as to a third party client base of retail, wholesale and institutional investors in the UK and overseas. Completion of the divestment occurred on 1 July 2014. A payment of £6 million was made to Standard Life Investments on 24 September 2014 in relation to certain contractual balance sheet adjustments which could not be calculated until after closing. The Company and Standard Life Investments also reached agreement on a long-term strategic asset management

alliance. The proceeds of the divestment were used to prepay £250 million of certain of the Group's debt facilities.

On 23 July 2014, the Group entered into the Revolving Credit Agreement, as amended and/or restated from time to time, including on 21 March 2016, 24 October 2016, 20 February 2017 and 30 March 2017. Under the Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility in an aggregate principal amount equal to £900 million.

On 3 September 2014, the Public Warrants expired and were delisted from the London Stock Exchange.

On 29 June 2015, the Group entered into an agreement to divest Scottish Mutual International Limited ("**Scottish Mutual International**") (which had 3,000 remaining policyholders) for £14 million. This divestment was completed on 2 December 2015.

On 6 August 2015, the Company announced that each of PLL and PLAL had been assigned the Insurer Financial Strength Rating of "A" with a stable outlook by Fitch Ratings Ltd. The outlook was revised to positive on 27 May 2016.

On 9 November 2015, the Company entered into an agreement with RGA International Reinsurance Company Limited ("**RGA International**"), an external reinsurer, effective from 1 November 2015, to reinsure substantively all of the PLAL annuity liabilities previously ceded to Opal Reinsurance Limited, a subsidiary undertaking of the Company. The Group paid a reinsurance premium of £1,346 million to RGA International.

On 1 November 2016, the Group acquired the SunLife Embassy Business from AXA UK for £373 million in cash. The acquisition added £12 billion of assets under management and over 910,000 policyholders to the Group and is expected to generate cashflows of approximately £300 million in aggregate between 2016 and 2020 and approximately £200 million in aggregate from 2021 onwards.

On 30 December 2016, the Group acquired ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings No. 4 Ltd., a wholly-owned subsidiary of Deutsche Bank AG for £933 million in cash. Proceeds from a rights issue of 144,727,282 new shares at 508 pence per new share, which closed on 25 October 2016 were applied towards the consideration paid for the acquisition.

The acquisition added £10 billion assets under management and 735,000 policyholders. It is expected to generate approximately £0.5 billion of aggregate cashflows between 2016 and 2020 and approximately £1.1 billion in aggregate from 2021 onwards.

On 25 July 2017, the Group announced that the Insurer Financial Strength Rating of PLL and PLAL had been upgraded to "A+" with a stable outlook.

Recent developments

On 23 February 2018, the Company entered into the Backstop Revolving Credit Agreement. Under the Backstop Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest and which was only intended to be utilised if the Revolving Credit Agreement had been cancelled.

On 23 February 2018, the Company also entered into the Acquisition Facility Agreement. Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million, which bears a floating interest rate and which is currently undrawn. On 23 February 2018, Fitch Ratings Ltd. affirmed PLL's and PLAL's ratings, following the Company's announcement of the Acquisition.

On 26 April 2018, the Company issued the RT1 Notes, the proceeds from which are expected to be used to fund a portion of the cash consideration for the Acquisition.

On 2 May 2018, the Revolving Credit Agreement was amended to (among other matters) permit the Acquisition and provide that the unsecured revolving credit facility made available under the Revolving Credit Agreement is available on a customary certain funds basis in connection with the Acquisition. As a result of the amendments to the Revolving Credit Agreement becoming effective on 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled on 2 May 2018.

Competitive strengths of the Group

The Directors believe that the Group's competitive strengths are as follows:

As the Group is primarily focused on the efficient management of in-force policies and writes limited new policies, the Group has high visibility of its cashflows over the long-term due to the predictable nature of the Group's funds.

The Group's closed life funds provide predictable fund maturity and liability profiles, generating expected long-term cashflows supporting payment of pension obligations, distributions to Shareholders and payment of outstanding debt obligations. The Group will continue to be focused on the efficient management of in-force policies and, even when taking into account the effect of the Acquisition in terms of the potential organic future growth in assets from the Client Service and Proposition Agreement, will write only limited new policies in the context of the Group's business as a whole. The Group therefore does not need to allocate significant capital to support the writing of new policies. Instead, the largest part of the costs of the Group's closed life funds are recurring expenses.

The Group's cashflows are largely generated from the interest earned on capital, policyholder charges and participation in investment returns. Although the impact of the Group's participation in investment returns is not predictable, investment risks are mainly borne by policyholders in accordance with the terms of the relevant policies. In addition, as the Phoenix Life Companies' policies run off, excess capital supporting these liabilities can be released from the Phoenix Life Companies to their shareholders, the Holding Companies. The predictable stream of profits from the run-off of the closed life funds provides some certainty of tax relief on debt interest. In 2016 and 2017, £486 million and £653 million, respectively, of cash was distributed from the Phoenix Life Companies to the Holding Companies.

The Group is the largest specialist closed life fund consolidator in the 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 5.6 million policyholders as at 31 December 2017, the Group is the largest UK specialist closed life fund consolidator by total number of policyholders. The Group has a track record and an expertise in creating value through integration of acquisitions and financial management, including through realising synergies from acquisitions and focusing on improving outcomes for policyholders of closed life funds. The Directors believe that these factors position the Group as a leading consolidator of closed life funds, resulting in a significant value creation opportunity.

The Directors believe that the Group's business model provides additional value and scalability, by using outsourced service providers to match its cost base to the run-off profile of the policies held within the Group's closed life funds, as the charges of outsourced service providers are generally based on a variable, per policy cost structure.

The Group seeks to manage the level of costs and required capital by combining life funds, allowing for greater diversification of risks.

There is significant opportunity to create value and accelerate cashflows through the continued implementation of 'The Phoenix Way'.

'The Phoenix Way' characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold. By applying a consistent framework across the Group, the Directors believe that 'The Phoenix Way' reduces risk, complexity and cost; delivers long-term stability of customer service through efficient cooperation with the Group's outsourcing partners; increases Solvency II Own Funds; and releases capital to shareholders. An example of 'The Phoenix Way' involves the consolidation of a disparate collection of actuarial valuation models onto a single platform, the actuarial systems transformation programme, with the aim of reducing operational risk (and associated capital) of actuarial modelling, improving the quality and frequency of capital monitoring and improving cost efficiency through the simplification and standardisation of actuarial processes. The actuarial systems transformation programme is an essential part of managing the Group's life businesses under the Solvency II regime.

The Directors believe that there are opportunities to further increase value and cashflows to the Holding Companies through additional management actions. Further actions that can create value include the reduction of operational risk and investment in illiquid asset classes such as equity release mortgages.

The Group actively manages its assets and liabilities to help protect and enhance policyholder and shareholder returns.

The Group aims to manage its assets and liabilities to ensure a prudent approach to risk and to give it the ability to use capital efficiently whilst having more control over management of investment and market risk for both policyholders and shareholders. This includes the matching of asset and liability cashflows to reduce capital requirements. In particular, the release of capital through the elimination of unrewarded risk can enable the achievement of higher risk adjusted returns.

Strategy of the Group

The Group specialises in the management and acquisition of closed life and pension funds, currently operating primarily in the United Kingdom. The Group is the UK's largest specialist closed life and pension fund consolidator measured by total number of policyholders, with 5.6 million policyholders, £74 billion of assets under management and Solvency II Own Funds of £6.6 billion as at 31 December 2017. The Group is primarily focused on efficient capital management and the extraction of value through management actions, operational efficiency and optimised financing.

The Group seeks to use its expertise to deliver value for shareholders and improve returns for policyholders and customers, whilst continuing to be recognised as the leading solutions provider for the safe, innovative and profitable decommissioning of closed life funds in the UK. To enable this, the Group's strategy is to:

(i) act as a consolidator of life and pensions books, predominantly those that are closed to new business;

(ii) deploy its specialist skills in operational efficiency, the use of partnerships and outsourcing to reduce costs and improve financial results; and

(iii) apply its expertise in capital management, regulation and other key areas to achieve better outcomes for policyholders and shareholders.

The Group's areas of strategic focus are:

- ***Closed book consolidation***: The Group's principal focus is to be a consolidator of life and pensions books which are predominantly closed to new business. The Directors believe that such books of business are best managed within a specialist scale platform and that existing and anticipated market dynamics will generate a further supply of potentially attractive acquisition targets in the future. These dynamics include the impact of the evolving regulatory framework for financial services companies, such as the implementation of Solvency II and Basel III regulations. In addition, the Directors believe that the opportunity is expected to be supported by ongoing capital pressure within the sector, the trend of life insurers recycling and refocusing capital from mature to growth businesses, the decline in new with-profit business, changing customer demands and regulatory change driving consolidation in the mutual sector. The Directors believe that this opportunity is also supported by the migration of customers to alternative products, creating legacy products and their infrastructure which face cost challenges as the policies run off over time. The management of these books requires specialist skills, particularly in regulation, operational efficiency, capital management, governance and liability customised asset management. To maintain its competitive advantage and create value, the Group develops specialist expertise to identify, pursue and execute suitable opportunities in this space. Given the opportunities and its experience, the Group remains predominantly focused on the UK. However, the Directors also note that there are product and market dynamic similarities with certain continental European life markets, which remain comparatively fragmented, having not gone through a sustained period of life consolidation as has been seen in the UK over the past several years. This should allow for a number of consolidation opportunities both within the UK and European markets in the coming years. Phoenix's operating model is specifically designed for ongoing closed life fund consolidation and the Group is well placed to generate value from further acquisitions. As such, Phoenix continues to actively explore further acquisition opportunities in the closed life sector, which is estimated to be a £540 billion opportunity across the UK, Germany and Ireland. Having recently completed its first bulk purchase annuity transaction with the Trustee of the Marks and Spencer Pension Scheme, Phoenix is also active in the bulk purchase annuity market which is estimated to be a £550 billion opportunity over the next

15 years. In the normal course of business, Phoenix may enter into further acquisitions in the closed life or bulk purchase annuity space in the short term that meet its acquisition criteria, but which are not expected to require Phoenix to raise further funding.

- ***Disciplined approach to M&A***: The Group seeks to make acquisitions consistent with its strategic focus and which are aligned to its acquisition criteria, namely: (i) have a closed life focus; (ii) are value accretive; (iii) support the dividend policy; and (iv) maintain the investment grade rating.
- ***Capital management and management actions***: The effective management of the Group's risks and the efficient allocation of capital against them is critical in allowing the Group to achieve its strategic and operational objectives. The Group's Solvency II Internal Model has been approved by the PRA as part of the Solvency II regime. In addition, the Group seeks to implement certain management actions to enhance its capital position and cashflows, such as fund mergers, strategic asset allocation and de-risking. As the Group grows through acquisitions, the opportunities for capital management and management actions tend to increase.
- ***Realise the benefits of scale***: Acquisitions are important to the Group's model not only to offset the natural decline of a business largely closed to new business, but also to grow the business and create additional value from scale advantages. Increased scale provides the Group with a number of key differentiating features including the ability to drive operational efficiencies and achieve diversification benefits, as well as ultimately enabling further acquisitions. To take advantage of acquisition opportunities, the Group has created a scalable operating model and adopts a disciplined pricing model which is supported by the Group's Solvency II Internal Model.
- ***Operational efficiency***: The Group routinely applies 'The Phoenix Way' to increase operational efficiency through the standardisation and streamlining of key processes, which will in turn reduce costs, improve performance and enhance value. 'The Phoenix Way' characterises an approach and infrastructure for the efficient and effective structuring, integration and management of closed life funds and the investments they hold. By applying a consistent framework across the Group, the Directors believe that 'The Phoenix Way' reduces risk, complexity and cost; delivers long-term stability of customer service through efficient cooperation with the Group's outsourcing partners; increases Solvency II Own Funds; and releases capital to shareholders. As a result of 'The Phoenix Way', the Group seeks to eliminate unnecessary cost from its business model. In part this is achieved through outsourcing certain administrative tasks to selected third parties. When the Group acquires new books of business, this scalable outsourced model supports the delivery of cost savings. At the same time, the Group seeks to ensure that the quality of service provided to its customers is not adversely impacted by such operational optimisation.
- ***Financing structure***: The Group intends to manage leverage at a level consistent with maintaining an investment grade rating for the Company and the Group's senior and subordinated debt. Debt will be issued at a range of maturities to achieve a balanced maturity profile. Hybrid debt issuance, using the full spectrum of Solvency II-compliant instruments, will be supportive of the Group's robust capital position. Based on the actual position as at 31 December 2017, an issuance of £100 million of hybrid debt would increase the Group's Shareholder Capital Coverage Ratio by approximately 4 per cent. and the regulatory coverage ratio by approximately 2 per cent. Based on the pro forma position assuming that the Acquisition, the Rights Issue and the associated financing (including the issuance of the RT1 Notes) took place on 31 December 2017, a further issuance of £100 million of hybrid debt (beyond that assumed in the pro forma adjustments) would increase the Enlarged Group's Shareholder Capital Coverage Ratio by approximately 2 per cent. and regulatory coverage ratio by approximately 1 per cent.
- ***Improving customer outcomes***: The Group aims to improve customer experiences through its focus on its chosen market, high levels of governance and extensive experience. The Group has three key areas of focus in relation to its customers, namely:

  Value: the Group aims to optimise customer outcomes;

  Service: treating customers fairly, with empathy as well as respect, and all in a timely fashion; and

Security: ensuring customer investments are secure in a well-managed company.

By focusing on these areas proactively and responsibly, the Directors believe that the Group can create value in the long-term in a highly regulated sector.

- ***Regulatory experience***: The Group's main regulators in the UK are the PRA and the FCA. The Group is aligned with the aims of both regulators, in seeking both to protect customers and their lifetime savings, and to manage its business with a prudent perspective on financial metrics including capital. The Enlarged Group will also be regulated in Ireland by the CBI and, where it conducts business outside the UK and Ireland, the laws and regulations of a number of other jurisdictions will also apply to the Enlarged Group.

By focusing on these areas proactively and responsibly, the Directors believe that the Group can create value in the long-term in a highly regulated sector.

Structure of the Group

Current structure

The Group operates one business segment: life insurance business (including its management services operations), which is referred to as "**Phoenix Life**". The Group's UK-based Group functions provide support and coordination for the delivery of the Group's strategic initiatives.

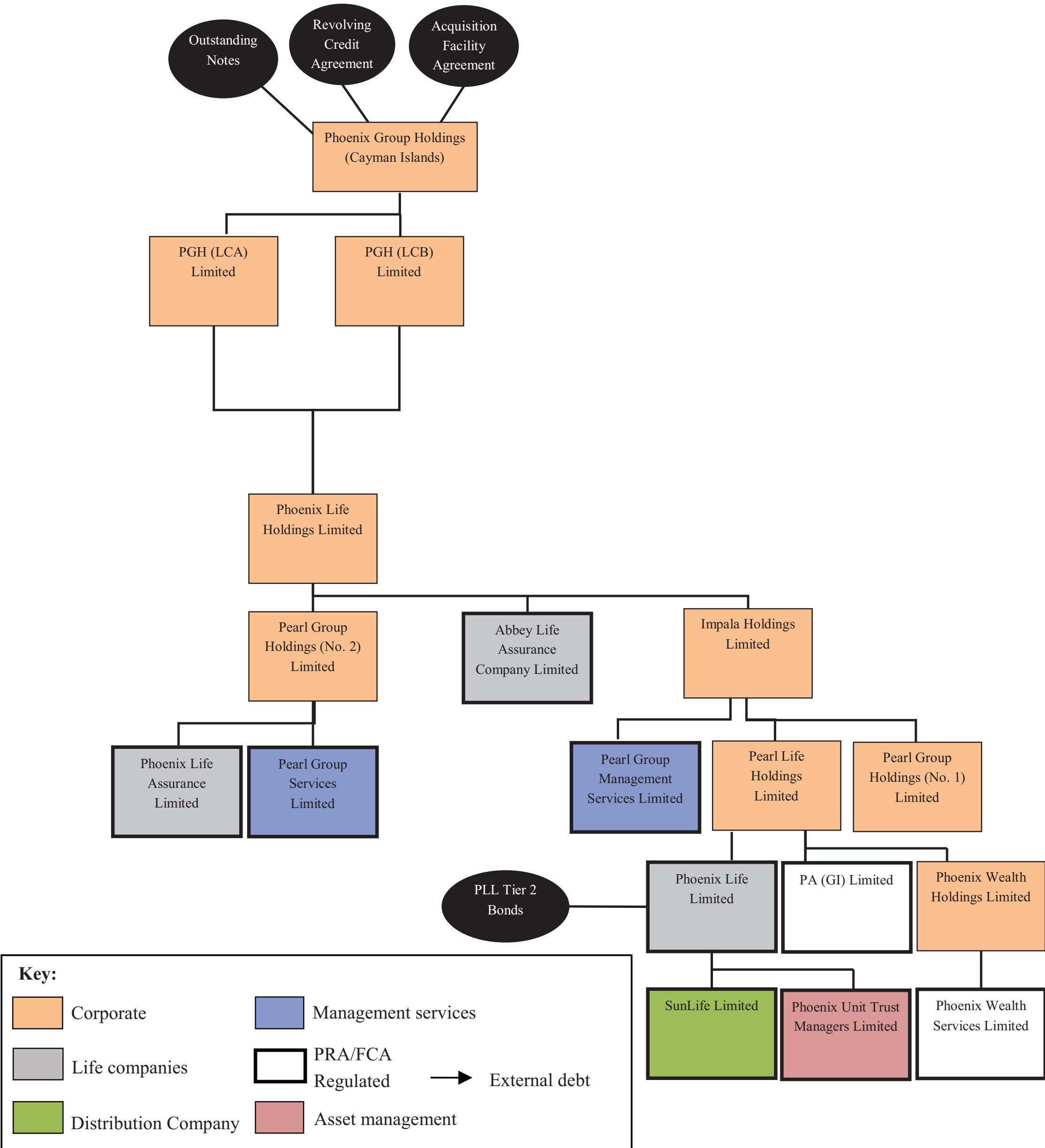
The holding company structure between the Company and the Phoenix Life Companies includes several holding companies which were established in relation to the acquisitions of the original Pearl life companies and their affiliates in 2005 and the Resolution Group in 2008.

Prior to Phoenix becoming UK tax resident in January 2018, PLHL was the ultimate EEA insurance holding company for group capital purposes and the calculation under the European Union Insurance Group's Directive ("**IGD**") and the PLHL (Group) Individual Capital Assessment ("**ICA**") were therefore historically prepared at that level. From 1 January 2016 to 30 June 2017, following implementation of Solvency II, the Solvency II capital assessment and the Group's regulatory supervision was performed at the PLHL level, as this was the highest EEA insurance holding company within the Group. This approach was supported by a waiver received from the PRA that permitted Group supervision to take place at the level of Phoenix, via "other methods" as opposed to full supervision. This waiver expired on 30 June 2017.

From 1 July 2017, regulatory supervision and the solvency capital adequacy assessment was performed at both the Company and PLHL levels. This "dual reporting" continued until 31 January 2018 when the Company's head office was moved to the UK from Jersey and the Company is now treated as the ultimate EEA insurance holding company of the Group. During this period, the Group's capital position was managed at the Company level only, being the more onerous calculation. Accordingly, from 1 July 2017, the PLHL Solvency II Surplus has not been reported.

As part of the ongoing simplification of the Group structure, the Company is proposing to put in place a new UK-registered holding company for the Group as soon as is practicable following Completion. The new company will be both the ultimate EEA and insurance holding company and therefore Solvency II capital assessment and Group supervision will be performed at this level. See also the risk factor entitled "*Regulatory capital and other requirements may change*" in the section of this document headed "*Risk Factors*".

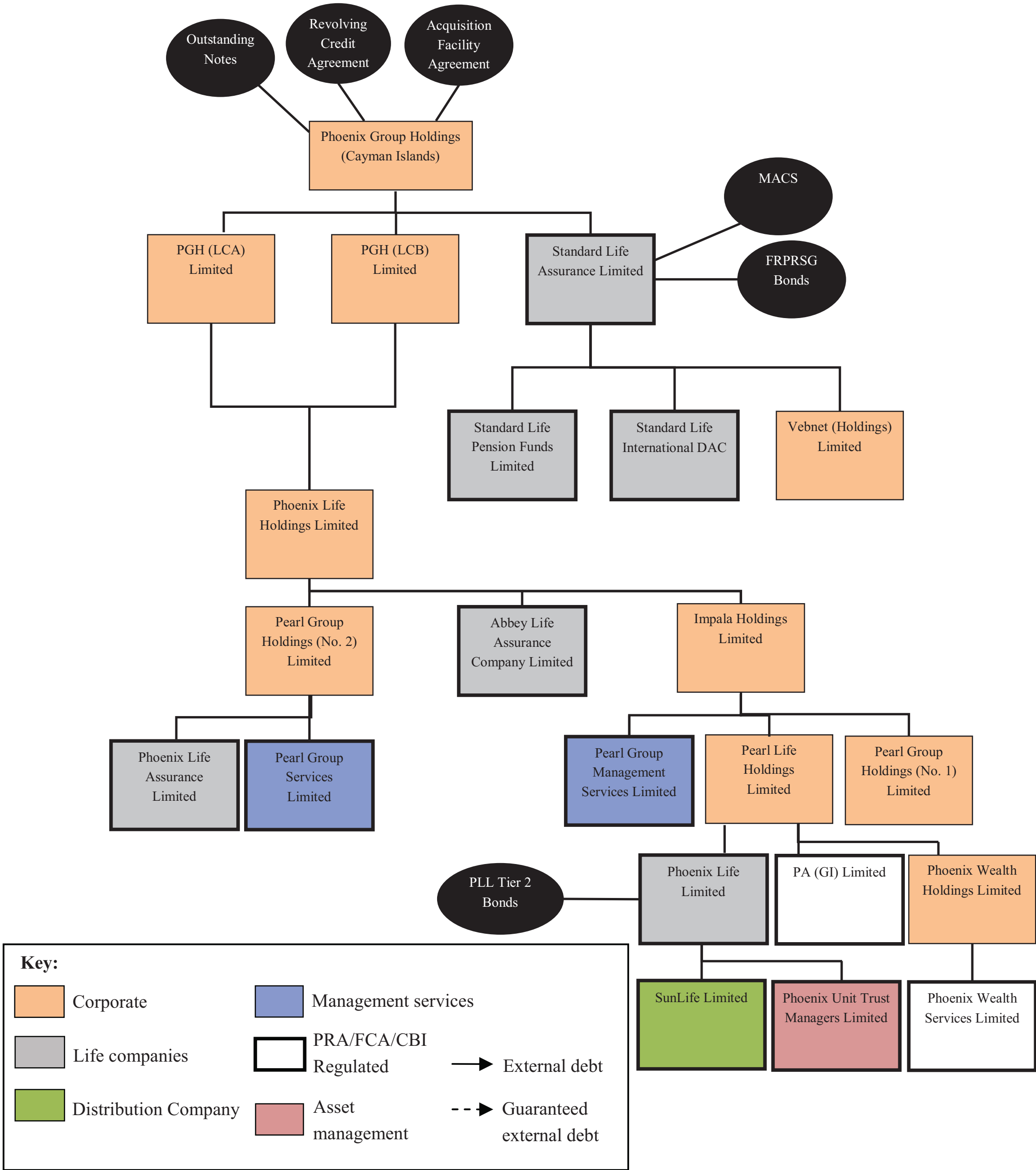
The following chart gives an overview of the legal structure of the Group and its principal companies as at the date of this document.



Note:
For the purposes of the structure chart above, the term "Outstanding Notes" means the 2027 Notes, the 2022 Notes, the Senior Bonds, the Subordinated Bonds and the RT1 Notes.

Structure of the Group post-Completion

The following chart gives an overview of the legal structure of the Group and its principal companies as it will be immediately following Completion.



Notes:

(1) For the purposes of the structure chart above, the term "Outstanding Notes" means the 2027 Notes, the 2022 Notes, the Senior Bonds, the Subordinated Bonds and the RT1 Notes.

(2) SLAL has provided a subordinated guarantee in respect of both the MACS and the FRPRSG Bonds. Details of the MACS, the FRPRSG Bonds and the collateralisation arrangement in place with Standard Life Aberdeen in respect of both can be found in the section headed "*Description of certain other indebtedness*" in Part X ("*Operating and Financial Review of Standard Life Assurance*") of this document.

Insurance business

The Phoenix Life Companies are regulated entities that hold the Group's policyholder assets. The Phoenix Life Companies are regulated by both the FCA and PRA. Historically, the Group has sought to reduce the number of its individual life companies through insurance business transfers to optimise capital allocation and economies of scale, the most recent being the insurance business transfer of all of the business of AWL to PLL in 2017.

Although the Phoenix Life Companies are closed life fund companies and do not generally write new business, they do accept additional policyholder contributions on in-force policies and allow certain policies, such as pension savings plans, to be reinvested at maturity into annuities written by a Phoenix Life Company. Writing annuities offers the Group a further opportunity to increase its value through profit margins and incremental investment returns.

Following completion of the AXA Transaction, the Group writes a limited set of directly marketed protection policies, including Guaranteed Over 50s policies (life insurance policies available to people over 50 years of age, which pay out upon the death of the life assured). SunLife Limited provides the distribution channel for SunLife business. It receives commissions and incurs costs on behalf of SunLife in relation to the distribution of third party products and is party to distribution contracts with SunLife corporate partners. This insurance provides diversification benefits for the Group because trends towards increased life expectancy will increase liabilities under the annuities written by the Phoenix Life Companies while delaying the payment of liabilities under these life insurance policies.

Reinsurance business

Overview

The Phoenix Life Companies reinsure certain liabilities both to other companies in the Group and to third party reinsurers as part of their ongoing risk and capital management policies, as well as to benefit from operational synergies.

Internal reinsurance

PLAL acts as the reinsurer for various blocks of pensions annuity business as well as with-profit bond business and with-profit elements of unitised with-profit contracts reassured to it by PLL. PLAL reinsures a significant block of unit-linked business to PLL. The business of ALAC has been reinsured into PLL.

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

External reinsurance

The Group's external reinsurance arrangements are spread across a number of reinsurers. These reinsurance arrangements cover a range of policy risks, including annuity, mortality and morbidity, long-term disability, critical illness and some investment risk.

Management services

Overview

Each of the Phoenix Life Companies is responsible to its policyholders for the administration of its policy portfolio and the provision of policyholder services, such as the collection of premiums, the provision of policyholder statements, the settlement of claims, the provision of website access and information, and the provision of policyholder information and other related support through contact service centres.

In order to allow the Phoenix Life Companies to benefit from economies of scale, efficient outsourcing partnerships and an innovative integrated technology infrastructure, Phoenix Life's two UK management service companies, PGS and PGMS, provide, or manage the provision of, policyholder services for certain Phoenix Life Companies under management service agreements. PGS and PGMS are similar in the way they operate and are managed as a single unit. By using management service companies, the Phoenix Life Companies benefit from increased price certainty and a transfer of some operational risks to the management service companies.

If the number of policies held by the Group gradually declines over time, the fixed cost base of the Group's operations as a proportion of policies may increase. The Group's management service companies manage this risk by putting in place long-term arrangements for third party policy administration. By paying a fixed price per policy to the outsourced service providers, the Group minimises the fixed cost element of its operations and allows for positive scalability following acquisitions.

Specialist roles such as finance, actuarial and risk management are retained in-house, ensuring the Group retains full control over the core capabilities necessary to manage and integrate closed life funds. The Phoenix Life Companies continue to retain ultimate responsibility to their policyholders,

actively manage service provision and aim to achieve improvement in the quality of services delivered to policyholders.

The Directors believe that consolidating policyholder services within Phoenix Life's two management service companies delivers long-term stability for policyholders and also enables the Phoenix Life Companies to share the costs of the provision of these services and other corporate overhead costs and allows the Group to benefit from efficiency savings, reductions in operational risks and the release of risk capital.

In addition, Phoenix Life also has a management service company incorporated in Ireland, Pearl Group Management Services (Ireland) Limited, which provides administration services to Scottish Mutual International (a former Group Company) under a management services agreement and a transitional services agreement.

Solvency Capital Requirement

In accordance with EIOPA and PRA requirements, from 1 January 2016 the Group has undertaken a Solvency II capital adequacy assessment at the level of the highest EEA insurance group holding company, which is Phoenix.

The Solvency II capital adequacy assessment involves a valuation in line with Solvency II principles of the Company's Own Funds and a risk-based assessment using an internal model of the Company's SCR.

The Group Solvency II Surplus position for the Company as at 31 December 2017 (estimated) and as at 31 December 2016 (pro forma), is set out below.

	31 December 2017 (£bn)	**31 December 2016 (£bn)[(4)(5)]**
Own Funds[(1)]	6.6	6.0
Solvency Capital Requirement[(2)]	4.8	4.9
Solvency II Surplus (estimated)[(3)]	**1.8**	**1.1**

Notes:

(1) Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferrable and fungible between Group companies within a period of nine months.

(2) Solvency regulatory capital requirements relate to the risks and obligations to which the Group is exposed.

(3) Equates to a regulatory coverage ratio of 138 per cent. as at 31 December 2017 (2016: 122 per cent. pro forma) and a Shareholder Capital Coverage Ratio of 164 per cent. as at 31 December 2017 (2016: 139 per cent. pro forma).

(4) The estimated Solvency II positions as at 31 December 2016 included the adverse impact of an assumed recalculation of transitional measures on technical provisions. A mandatory recalculation of transitional measures on technical provisions was required as at 31 December 2017 and is reflected in the Group Solvency II Surplus position as at that date.

(5) The position as at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA business within the Group's Solvency II Internal Model. Had these adjustments not been made, the estimated surplus as at 31 December 2016 would be £0.4 billion lower.

These figures exclude surpluses arising in the Group's with-profit funds and Group pension schemes of £0.6 billion and £0.4 billion as at 31 December 2017 and 31 December 2016, respectively. In the calculation of the Group Solvency II Surplus, the SCR of the with-profit funds and Group pension schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and Group pension schemes, whilst not included in the Group Solvency II Surplus, are available to absorb economic shocks. This means that the headline surplus is highly resilient to economic stresses.

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided below and demonstrate the resilience of the Group Solvency II Surplus:

	Group Solvency II Surplus as at 31 December 2017 (£ billion)
Base: 31 December 2017	1.8
Following a 20 per cent. fall in equity markets	1.8
Following a 15 per cent. fall in property values	1.8
Following a 60 basis points interest rates rise[(1)]	1.9
Following a 80 basis points interest rates fall[(1)]	1.7
Following credit spread widening[(2)]	1.6
Following 6 per cent. decrease in annuitant mortality rates[(3)]	1.5
Following 10 per cent. increase in assurance mortality rates	1.7
Following a 10 per cent. change in lapse rates[(4)]	1.7

Notes:

(1) Assumes recalculation of transitionals (subject to PRA approval).

(2) Credit stress equivalent to approximately 100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.

(3) Equivalent of six months' increase in longevity applied to the annuity portfolio.

(4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

Excluding the SCR and Own Funds of £2.0 billion relating to the unsupported with-profit funds and the PGL Pension Scheme, the Solvency II Shareholder Capital Coverage Ratio is 164 per cent. as at 31 December 2017 (2016: 139 per cent. on a pro forma basis).

The sensitivity of the Enlarged Group's Solvency II Surplus for a number of financial scenarios is provided below based on the unaudited pro forma position as at 31 December 2017:

	Enlarged Group Solvency II Surplus as at 31 December 2017 (£ billion)
Base: 31 December 2017	2.5
Following a 80 basis points interest rates fall[(1)]	2.4
Following credit spread widening[(2)]	2.3
Following 6 per cent. decrease in annuitant mortality rates[(3)]	2.0
Following a 10 per cent. change in lapse rates[(4)]	2.2

Notes:

(1) Assumes recalculation of transitionals (subject to PRA approval).

(2) Credit stress equivalent to approximately 100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.

(3) For the Phoenix annuity portfolio, this is equivalent to six months' increase in longevity.

(4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups. For the acquired businesses, assumes a 10 per cent. increase in lapse rates for funds exposed to increased lapses.

Minimum Capital Requirement

The minimum capital requirement ("**MCR**") is intended to be the minimum amount of capital an insurer is required to hold pursuant to Solvency II below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations.

MCR is calculated according to a formula prescribed by the Solvency II regime and is subject to a floor of 25 per cent. of the SCR or €3.7 million, whichever is higher, and a cap of 45 per cent. of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk. The Company's estimated MCR at 31 December 2017 was £1.2 billion, representing the sum of the Group's underlying insurance companies' MCRs. The eligible own funds to cover the MCR is £5.2 billion leaving an excess of eligible Own Funds over MCR of £4.1 billion, which translates to a MCR coverage ratio of 448 per cent.

The eligible Own Funds to cover the MCR is subject to quantitative limits as shown below:

- the eligible amounts of Tier 1 items should be at least 80 per cent. of the MCR; and
- the eligible amounts of Tier 2 items shall not exceed 20 per cent. of the MCR.

	31 December 2017 (estimated) (£bn)	31 December 2016 (pro forma) (£bn)
Eligible Own Funds to MCR		
Tier 1	5.0	5.0
Tier 2	0.2	0.2
Total eligible Own Funds to cover MCR	**5.2**	**5.2**

Were the Acquisition to have taken place as at 31 December 2017, the Company's estimated MCR would have increased by £1.3 billion and the total eligible Own Funds to cover MCR would have increased by £3.5 billion.

Outsourcing relationships

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

The most significant outsourcing relationships for policy administration services are with Diligenta and Capita Life and Pensions, and for asset management services are with Standard Life Aberdeen plc, Janus Henderson Investors and Deutsche Asset Management (UK) Ltd. In addition, there are a number of other key outsourcing partners.

As closed life funds run-off, fees generated from the management of policies generally decrease over time. Therefore, the Group is best served by closely aligning its costs with the policy run-off profile of its book. Any costs that do not decline in line with a declining policy book create potential operating profit challenges. The use of outsourced service providers enables the Group to better shift its cost base from a largely fixed cost base to a more variable per-policy basis. The Group's outsourced service providers are also able to offer their services at a competitive price per policy due to their larger economies of scale and infrastructure investments.

Group functions

The Group operates centralised functions that provide Group wide and corporate level services and manage corporate activity. The Group level operations include Group Finance, Treasury, Group Tax, Group Actuarial, Group Risk, Legal Services, HR, Corporate Communications, Strategy and Corporate Development, Investor Relations, Company Secretariat and Group Internal Audit.

Risk management

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

Risk culture

The Group seeks to embed a culture that is forward-looking and competent in its assessment and management of risk, a culture where everyone in the Group is aligned in their goals to deliver better risk-based decisions.

To support this goal, the Group defined a Risk Culture Statement which sets out the Group's aspirations for Risk Management:

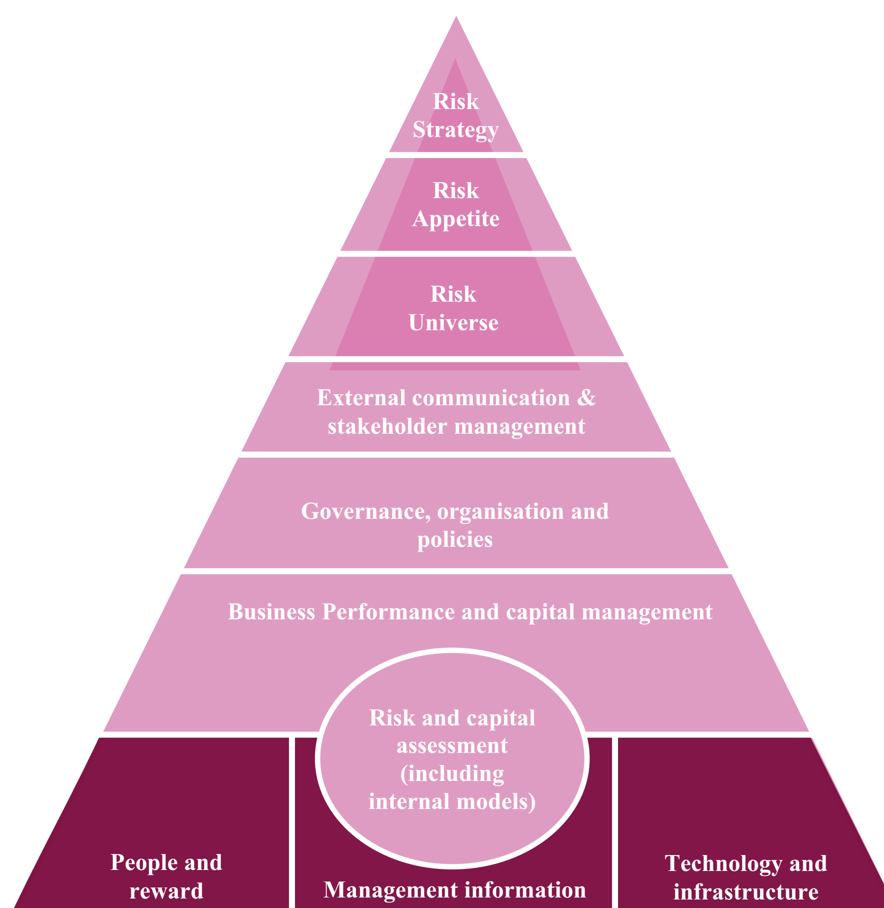
> "*The Group has a balanced risk culture, supportive of commercial risk taking coupled with strong execution in line with its risk appetite.*
>
> *At its core are the Group's values and behaviours, clarity of accountability and a healthy tension between the first and second lines of defence.*

Collectively this means people understand the Group's approach to risk, take personal responsibility to manage risk in everything they do and encourage others to follow their example."

On an annual basis Group Risk conducts a Risk Culture survey, the results of which enable the Company to assess and measure the Group's Risk Culture over time as well as being able to tailor training programmes to ensure the continued engagement and development of the Group's employees.

The Group's Risk Management Framework

The Group's Risk Management Framework ("**RMF**") embeds proactive and effective risk management across the Group. It seeks to ensure that all risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes.



Further details on the ten components of our RMF are provided below, with its effective operation underpinned by our risk culture.

During the year, adoption of the Risk Management Framework to the Abbey Life business has strengthened oversight and management of the legacy issues and the ongoing FCA enforcement investigations. The Group Risk function played a key role in the successful application to bring AXA Wealth and Abbey Life into the Group's Internal Model. The function has also led contingency planning activities in the event of an adverse outcome from Brexit. The key risk management skillsets and processes across the business support the Group in targeting transactions in the bulk annuity market.

1. 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 assists the business in achieving its strategic objectives by supporting a more stable, well managed business with improved customer and shareholder outcomes.

This is achieved not by risk avoidance, but through the identification and management of an acceptable level of risk (its 'risk appetite') and by ensuring that the Group is appropriately rewarded for the risks it takes.

To ensure that all risks are managed effectively the Group is committed to:

- embedding a risk aware culture;
- maintaining a strong system of internal controls;
- enhancing and protecting customer and shareholder value by continuous and proactive risk management;
- maintaining an efficient capital structure; and
- ensuring that risk management is embedded into day-to-day management and decision-making processes.

2. Risk Appetite

The Group's risk appetite is the level of risk the Group is willing to accept in pursuit of its strategic objectives. The statements below encapsulate our risk appetite for policyholder security and conduct, earnings volatility, liquidity and our control environment:

- *Capital*: The Group and each Phoenix Life Company will hold sufficient capital to meet regulatory requirements in a number of asset and liability stress scenarios.
- *Cashflow*: The Group will seek to ensure that it has sufficient cash flow to meet its financial obligations and will continue to do this in a volatile business environment.
- *Shareholder Value*: The Group will take action to protect its shareholder value.
- *Regulation*: The Group and each Phoenix Life Company will, at all times, operate a strong control environment to ensure compliance with all internal policies and applicable laws and regulations, in a commercially effective manner.
- *Conduct*: Phoenix has no tolerance for deliberate acts of misconduct or omissions that result in poor customer outcomes, reputational damage and/or pose a risk to the FCA's statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by limiting the volatility of key parameters under adverse scenarios. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits. Assessment against these limits is undertaken through extensive scenario and reverse stress testing.

3. Risk Universe

A key element of effective risk management is ensuring that the business has a complete understanding of the risks it faces. These risks are defined in the Group's risk universe.

The risk universe allows the Group to deploy a common risk language, allowing for meaningful comparisons to be made across the business.

There are three levels of risk universe categories. The highest risk universe category is Level 1 and includes:

- strategic risk;
- customer risk;
- financial soundness risk;
- market risk;
- credit risk;
- insurance risk; and
- operational risk.

Embedded within these categories, and customer risk in particular, are the conduct risks faced by the Group and its customers. These risks are separately monitored and reported on across the organisation to ensure that conduct risk receives appropriate emphasis and oversight.

The Group has developed a Board-approved risk appetite statement to manage conduct risk. The appetite statement is supported by the assessment of all conduct related risks faced by the Group on

a quarterly basis. This regular assessment and reporting enables us to be forward-looking and proactive in the management of conduct risk.

4. External Communication and Stakeholder Management

The Group has a number of internal and external stakeholders, each of whom has an active interest in the Group's performance, including how risks are managed. Significant effort is made to ensure that our stakeholders have appropriate, timely and accurate information to support them in forming views of the Group.

5. Governance, Organisation & Policies

Governance

Overall responsibility for approving, establishing and embedding the RMF rests with the Board. The Board recognises the critical importance of having an efficient and effective RMF and appropriate oversight of its operation. There is a clear organisational structure in place with documented, delegated authorities and responsibilities from the Board to the PLHL Board, the Phoenix Life Company Boards and the executive committee of PLHL that provides day-to-day direction (the "**Executive Committee**").

The RMF is underpinned by the operation of a three lines of defence model with clearly defined roles and responsibilities for statutory boards and their committees, management oversight committees, Group Risk and Group Internal Audit.

First line: Management

Management of risk is delegated from the Board to the Group Chief Executive Officer, Executive Committee members and through to business managers. A series of business unit management oversight committees operate within the Group. They are responsible for implementation of the RMF, ensuring the risks associated with the business activities are identified, assessed, controlled, monitored and reported.

Second line: Risk Oversight

Risk oversight is provided by the Group Risk function and the Board Risk Committee. The Board Risk Committee comprises four independent non-executive directors and is supported by the Group Chief Risk Officer. A Phoenix Life Board Risk Committee is in place to provide focus on risk matters at Phoenix Life.

Third line: Independent Assurance

Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the audit committee of the Board (the "**Audit Committee**").

Organisation

The Group Chief Risk Officer manages the Group Risk function and has responsibility for the implementation and oversight of the Group's RMF. The Group Risk function has responsibility for oversight over financial, operational and regulatory risk. The PRA/FCA relationship team manages the relationship and interactions with our primary regulators and reports to the Group Chief Risk Officer.

Policies

The Group policy framework comprises a set of policies that supports the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to our business. The policy set contains the minimum control standards to which each business unit must adhere to and against which they report compliance. The policies define:

- the individual risks the policy is intended to manage;
- the degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;
- the minimum controls required in order to manage the risk to an acceptable level; and
- the frequency of the control's operation.

Each policy is the responsibility of a member of the Executive Committee who is charged with overseeing compliance throughout the Group.

6. *Business Performance and Capital Management*

The annual operating plan is assessed to ensure that the Group operates within our stated risk appetite. Business performance is routinely monitored with consolidated reporting against performance targets.

The Group operates a capital management policy where capital is allocated across risks where capital is held as a mitigant and the amount of risk capital required is reviewed regularly.

7. *Risk and Capital Assessment*

The Group operates a standardised assessment framework for the identification and assessment of the risks to which it may be exposed and how much capital should be held in relation to those exposures. This framework establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding capital management at all levels of the Group in line with Solvency II requirements.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives.

Stress and scenario tests are used extensively to support the assessment of risk and provide analysis of their financial impact.

Independent reviews conducted by Group Risk provide further assurance to management and the Board that individual risk exposures and changes to our risk profile are being effectively managed.

8. *Management Information*

Overall monitoring and reporting against the risk universe takes place in business unit management committees and Boards. This is then reported to the Executive Committee, Phoenix Life Company Boards and the Board via regular risk reporting.

The Phoenix Life Company and Phoenix Board Risk Committees receive a consolidated risk report on a quarterly basis, detailing the risks facing the Group and the overall position against risk appetite limits. The Risk Committees are also provided with regular reports on the activities of the Group Risk function.

9. *People and Reward*

Effective risk management is central to the Group's culture and its values. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the RMF.

10. *Technology and Infrastructure*

The Group employs market leading risk systems to support the assessment and reporting of the risks it faces. This enables management to document key risks and controls and evidence the assessment of them at a frequency appropriate to the operation of the control.

FCA thematic reviews

The Group and the thematic review on the fair treatment of long standing-customers in the life insurance sector

The Phoenix Life Companies cooperated with the FCA in respect of its thematic review on the fair treatment of long-standing customers in the life insurance sector. A number of firms which were the subject of the review are now the subject of additional investigation, including ALAC.

On 9 December 2016, the FCA published its finalised guidance on the fair treatment of long-standing customers in the life insurance sector. The guidance sets out the FCA's expectations on the actions life insurance firms should take to treat their closed-book customers fairly. The guidance covers four high-level customer outcomes:

- the firm's strategy and governance framework results in the fair treatment of closed-book customers;
- the firm's closed-book customers receive clear and timely communications about policy features at regular intervals and at key points in the product of lifecycle to enable them to make informed decisions;

- the firm gives adequate consideration to, and takes proper account of, fund performance and policy values in a way that ensures it treats its closed-book customers fairly and proportionately; and
- the firm's closed-book customers are able to move from products that are no longer meeting their needs in a fair reasonable manner.

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

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

In May 2016, the FCA launched a consultation on proposals to cap early exit pension charges, both for existing contracts that contain an early exit charge (where it is proposed the cap would be 1 per cent. of policy value) and also new contracts (where no exit charge would be permitted). On 15 November 2016, the FCA announced that, from 31 March 2017, where a customer is over 55 years of age and therefore eligible to realise benefits from its pension pot, early exit charges will be capped at 1 per cent. of the value of existing contract-based personal pensions. For customers over 55 years of age, early exit charges that are currently set at less than 1 per cent. have not been increased. In addition, a cap on occupational schemes was introduced by the Department of Work and Pensions in October 2017. Phoenix introduced these changes in 2017 for all pension customers.

In June 2017, the FCA issued a request for information to assist them with planning the scope of their forthcoming Thematic Review of the Fair Treatment of with-profits customers. This information was supplied in August 2017. This work is ongoing.

The Group and the thematic review on annuity sales practices

For further information on the thematic review on annuity sales practices, see the section headed "*The thematic review on annuity sales practices*" in Part VI ("*Regulatory Overview*") of this document.

Pensions

The Group has three main staff pension schemes for its employees: the Pearl Scheme, the PGL Pension Scheme and the Abbey Life Pension Scheme. For the Senior Managers and other members of management, the Group also offers individual pension contracts.

The Pearl Scheme

The Pearl Scheme comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members and since 1 July 2011 have also been closed to future accrual by active members. The Pearl Scheme has no active members.

A triennial funding valuation of the Pearl Scheme as at 30 June 2012 was completed in May 2013. This showed a deficit as at 30 June 2012 of £480 million on the agreed technical provisions basis. On

27 November 2012, PGH2 as principal employer and the trustee of the Pearl Scheme entered into the 2012 Pensions Agreement. The principal terms of the 2012 Pensions Agreement are:

- annual cash payments which were paid to the scheme of £70 million in 2013 and 2014, followed by payments of £40 million in September each year from 2015 to 2021. The 2012 Pensions Agreement includes a sharing mechanism, relating to the level of dividends paid out of PGH2, that in certain circumstances allows for an acceleration of the contributions to be paid to the Pearl Scheme;
- additional contributions may become payable if the scheme is not anticipated to meet the two agreed funding targets: (i) to reach full funding on the technical provisions basis by 30 June 2022; and (ii) to reach full funding on a gilts flat basis by 30 June 2031;
- the trustee of the Pearl Scheme continues to benefit from a first charge over shares in PLAL, Pearl Group Services Limited and PGS2 Limited. The value of the security claim granted under the share charges is capped at the lower of £600 million and 100 per cent. of the Pearl Scheme deficit (calculated on a basis linked to UK government securities) revalued every three years; and
- covenant tests relating to the embedded value of certain companies within the Group.

A triennial valuation for the Pearl Scheme as at 30 June 2015 was completed in September 2016. This showed a deficit of £300 million as at 30 June 2015 on the agreed technical provisions basis. As part of the 2015 triennial valuation discussions, PGH2 and the trustee of the Pearl Scheme agreed to change the timing of the contributions under the 2012 Pensions Agreement to be payable on a monthly basis. As at 31 December 2017, £150 million of these contributions are still to be paid.

The Revolving Credit Agreement and the Acquisition Facility Agreement restrict the Group's ability, with certain exceptions, to transfer assets into the companies over which the trustee of the Pearl Scheme holds a charge over shares.

For further information on the Pearl Scheme, see paragraph 12.1.7 ("*The Pearl Scheme Agreements*") of Part XV ("*Additional Information*") of this document.

The PGL Pension Scheme

The PGL Pension Scheme comprises a final salary section and a defined contribution section.

The defined benefit sections of the PGL Pension Scheme is a final salary arrangement which is closed to new members and since 1 July 2011 has also been closed to future accrual by active members. The PGL Pension Scheme has no active members.

The PGL Pension Scheme is administered by a separate trustee company, PGL Pension Trustee Ltd. The trustee company is comprised of two representatives from the Group, three member nominated representatives and one independent trustee in accordance with the trustee company's articles of association. The trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

A triennial funding valuation of the PGL Pension Scheme as at 30 June 2015 was completed in June 2016. This showed a surplus of £164 million on the agreed technical provisions basis as at 30 June 2015.

As at 31 December 2017, no further contributions are still to be paid.

Benefits for the majority of the scheme's pensioners in payment are provided by PLL under an insurance buy-in contract.

For further information on the PGL Pension Scheme, see paragraph 12.1.8 ("*The PGL Pension Scheme Guarantees*") of Part XV ("*Additional Information*") of this document.

The Abbey Life Pension Scheme

The Abbey Life Pension Scheme is a final salary arrangement containing a small amount of defined contribution benefits, and is closed to new members but remains open to future accrual by active members. As at 31 March 2017, the Abbey Life Pension Scheme had 15 active members.

On 28 June 2013, ALAC and the Trustees entered into a contractual funding agreement (the "**2013 Funding Agreement**"), which provides for certain payment triggers pursuant to which monies in a charged escrow account are released to the Trustees. The triggers are: (i) the insolvency of Abbey Life; (ii) a deficit in the Abbey Life Pension Scheme on a specifically defined basis as at 31 March

2021; (iii) failure to calculate that specifically defined deficit by 31 May 2022; and (iv) a debt becoming due from Abbey Life to the Trustees under Section 75 of the Pensions Act 1995 (broadly, on the winding up of the Abbey Life Pension Scheme). On payment trigger (i), (iii) or (iv) arising, Abbey Life must pay to the Trustees the lower of the Section 75 debt and the value of the assets in the escrow account. On payment trigger (ii), Abbey Life must pay to the Trustees the lowest of the deficit on the specifically defined basis, the Section 75 debt and the value of the assets in the escrow account.

A triennial funding valuation of the Abbey Life Pension Scheme was completed in June 2016. This showed a deficit of £107 million as at 31 March 2015 on the scheme funding (technical provisions) basis.

The trustees of the Abbey Life Pension Scheme and PeLHL entered into an agreement on 29 June 2017 under which PeLHL became the scheme sponsor and will pay the following deficit recovery contributions to the scheme:

- an initial payment of £25 million in July 2017 with monthly contributions of £400,000 between 1 July 2016 and 30 June 2026; and
- payment of £4 million (in cash or by agreed assets) by 31 July each year from 2017 to 2025 into the 2016 charged account. The payment triggers for this charged escrow are as in the 2013 Funding Agreement, though referring to a specified deficit as at 31 March 2027, and to determine whether a surplus arises, the assets in the 2013 Charged Account are also taken into account.

The 2013 Charged Account and the 2016 Charged Account contained a combined £44.8 million as at 31 December 2017.

For further information on the Abbey Life Pension Scheme, see paragraph 12.1.9 ("*Abbey Life Pension Scheme*") of Part XV ("*Additional Information*") of this document.

Employees

The Group operates across four primary locations in Birmingham, London and Basingstoke, with the Sun Life distribution business based in Bristol. It had 1,249 employees as at 31 December 2017, of which 77 were considered to be "fixed term" employees with specified end dates. In addition, as at 31 December 2017, the Group employed approximately 35 contractors or temporary staff to cover flexible resource requirements.

The office in St Paul's, London is home to the Group's corporate functions and as of 31 December 2017 included 98 people across finance, actuarial, legal, tax and treasury, risk and corporate development. As of 31 December 2017, the office in Wythall, Birmingham included 689 people, all of the Phoenix Life Company functions across finance, actuarial, legal, tax, customer and operations, as well as the risk and compliance and human resource teams. As of 31 December 2017, the former AWL business in Basingstoke operated with 309 employees, whilst Sun Life in Bristol operated with 124 employees.

The following table shows the number of employees of the Group as at 31 December 2017, 31 December 2016 and 31 December 2015:

	Number of employees
As at 31 December 2017	1,249
As at 31 December 2016	1,305
As at 31 December 2015	742

The Group has collective consultation agreements in place with Unite, the largest UK trade union, covering certain categories of employees across Wythall, Basingstoke and Bristol sites.

Properties

In the UK, the Group primarily operates from leased office premises in London and Wythall and has other operations at premises owned by the Group in Basingstoke and Bournemouth and leased by the Group in Bristol. The Bournemouth site also provides accommodation to the outsources service provider to ALAC (Capita Life and Pensions). In addition, the Group also has another site in Glasgow which it has provided primarily for the benefit of the Phoenix Life Companies' outsourced

service providers in order to enable them to provide services to the Phoenix Life Companies' customers.

PART V—BUSINESS OVERVIEW OF STANDARD LIFE ASSURANCE

Business overview

Standard Life Assurance will include the majority of Standard Life Aberdeen's UK and European life insurance business but will not include Standard Life Aberdeen's UK retail platforms and advice business. Standard Life Assurance is a leading provider of long-term savings and investment propositions. It is primarily based in the UK, with further operations through branches in Ireland and Germany. Its main aim is to help people manage their money today and save for their future. As at 31 December 2017, Standard Life Assurance had approximately 4.8 million policyholders and £166 billion of assets under administration ("**AUA**") (approximately 25 per cent. of Standard Life Aberdeen's total AUA).

Standard Life Assurance comprises the following significant entities, all of which are 100 per cent. owned (directly or indirectly) by Standard Life Aberdeen:

- ***Standard Life Assurance Limited***: SLAL provides life assurance and pension products in the UK, Ireland and Germany, with the business written in Ireland and Germany through branches.
- ***Standard Life Pension Funds Limited***: SLPF transacts pension fund business in the UK and provides management services for pension funds in the UK and Ireland.
- ***Standard Life International Designated Activity Company***: SLIDAC sells offshore unit-linked investment bonds to customer in the United Kingdom and, following a Part VII transfer, it is intended that SLIDAC will administer all policies relating to customers situated in the European Union (but not the UK).
- ***Vebnet Limited***: Vebnet Limited develops and distributes technology for the management and administration of employee benefits (FIX&FLEX®) and provides management services.

For a full list of the subsidiaries of SLAL as expected at the date of Completion, see paragraph 11.3 ("*Subsidiaries and Corporate Structure—SLAL*") in Part XV ("*Additional Information*") of this document.

Phoenix will apply a disciplined approach to the separation and transition of Standard Life Assurance and that will leverage its existing skills and experience in delivering an effective operating model which continues to focus on strong risk management, leading governance and financial restructuring, all delivered by skilled and experienced teams in both Phoenix and Standard Life Assurance. In addition, Phoenix will build on the strong capabilities in Standard Life Assurance to support new business expected to be manufactured through the strategic partnership. The Company expects that the separation and transition of Standard Life Assurance will take at least three to four years from Completion. For further details on the expected financial benefits of the Acquisition, see paragraph 2.2 ("*Reasons for the Acquisition*") in Part I ("*Letter from the Chairman of Phoenix Group Holdings*") of this document.

Under the terms of the Transitional Services Agreement, customary transitional services will be provided by Standard Life Aberdeen for a limited duration post-Completion. In addition, SLAL Newco shall provide certain services or procure that certain services are provided to SLESL and certain other companies within the Standard Life Aberdeen group. Other services which are more directly related to life assurance, such as certain collateral, custody and investment management services, are expected to be provided on an ongoing basis by Standard Life Aberdeen as part of its strategic partnership with Phoenix. The contractual terms on which certain of those services are provided are expected to be amended to be provided on an arm's length basis.

Standard Life Assurance had estimated Solvency II Own Funds of £3.5 billion and SCR of £2.5 billion as at 31 December 2017 (both on a shareholder capital basis). The estimated Solvency II Surplus of Standard Life Assurance as at 31 December 2017 was £1.0 billion, with a Shareholder Capital Coverage Ratio of 143 per cent. Solvency II Own Funds, SCR and the Shareholder Capital Coverage Ratio of Standard Life Assurance exclude amounts relating to unsupported with-profits. In addition, the Standard Life Assurance Own Funds and SCR are stated after pre-Completion adjustments comprising payment of a dividend to Standard Life Aberdeen, repayment of capital qualifying subordinated debt and the expected treatment of certain pension schemes. The Standard Life Assurance Own Funds have also been adjusted to reflect acquisition adjustments comprising the additional VAT liability that arises post-Completion in respect of investment management fees and the transaction costs incurred by the Company in connection with the Acquisition and associated

financing. For further detail on these adjustments, see Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*").

Products and distribution

In the UK, Standard Life Assurance's products and services are offered through two main channels:

- *Retail*: pensions and savings where the relationship is either directly with the customer, or with their financial adviser; and
- *Workplace*: pensions, savings and flexible benefits to employees through their employers.

Workplace distribution is via employers and their advisers. Workplace business is primarily corporate pensions. Since auto-enrolment began in 2012, Standard Life Assurance has supported 10,000 employers to set up qualifying workplace pension schemes, with 1.1 million members enrolled into these schemes.

Standard Life Assurance's European business comprises operations in Ireland and Germany, where Standard Life Assurance offers savings and investment products to a variety of customers and clients. Distribution of products in Ireland and Germany is primarily via brokers and advisers.

Standard Life Assurance's business includes a range of products which are categorised as either fee-based or spread/risk business. In 2017, 84 per cent. of Standard Life Assurance's total operating income was fee-based.

- *Fee-based business*: The fee-based business is made up of products where revenue is generated primarily from annual management charges ("**AMCs**"), and ad-valorem-based charges. AMCs are earned on products such as self-invested personal pensions, drawdown products, individual savings accounts and corporate pensions, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the shareholder's major indirect exposure to rising or falling markets coming from higher or lower AMCs. Fee business includes unit-linked and with-profits business. A unit-linked policy is one where the benefits are determined by reference to a specified pool of assets. A with-profit policy is one where, in addition to guaranteed benefits specified in the policy, additional bonuses may also be payable depending on the performance of the assets in the with-profits fund. With-profits business was predominantly written before the demutualisation of Standard Life.
- *Spread/risk business*: Spread-based business consists of annuities and risk-based business consists of protection products. The spread/risk business mainly comprises annuities where a guaranteed level of income is provided to customers in return for an investment. The 'spread' primarily relates to the difference between the guaranteed amount paid to customers and the actual return on related assets over the period of the contract. Annuity sales fell dramatically in 2014 in anticipation of pension freedoms and, since 2015, Standard Life Assurance's customers are now pointed towards an open market annuity panel. Very low volumes of Standard Life Assurance's annuities are sold to customers with maturing guaranteed benefit options (GAOs/GMPs) and to customers who are unable or not willing to purchase an open market annuity.

Principal markets

Standard Life Assurance's business is primarily based in the UK, with operations also in Ireland and Germany. Standard Life Assurance's total operating profit before tax for the year ended 31 December 2017 was £366 million, which consisted of £319 million from the UK and £47 million from Ireland and Germany.

Standard Life Assurance's business can be subdivided into the following "blocks":

Business segment	**AUA at 31 December 2017**	**Description**
UK Mature and Spread/Risk Business	£55.7 billion	The UK mature and spread/risk business forms the majority of Standard Life Assurance's closed business in the UK. It consists of conventional with-profits business, annuity business, pensions, legacy life bonds and protection business, totalling approximately 1.4 million policies (of which annuity policies are approximately 500,000), as well as non-product assets. Standard Life Assurance's UK mature and spread/risk business comprises long-standing retail pensions and savings customers with products that are not part of Standard Life Assurance's current market offering. Most customers came to Standard Life Assurance more than 15 years ago, either directly, through an adviser or via a previous employer. The business is expected to see modest net outflows as it matures, with run-off periods ranging from 10 to 30 years.
Workplace Business	£40.2 billion	UK workplace customers are members of their workplace pension scheme through one of Standard Life Assurance's product propositions, which include modern group pension products as well as legacy group pension products. The assets under management are split roughly equally between modern and legacy products at approximately £19 billion and £21 billion, respectively. Standard Life Assurance's workplace pensions offering provides a market leading investment solution to employers in the UK and has 1.8 million employee members in total. Product capabilities include online scheme set up and management, UK based phone support and employee engagement support.
UK Retail Business	£46.2 billion	UK retail business consists primarily of pensions products sold through independent financial advisers and "non-advised" routes. The UK retail business is one of the UK's largest individual pensions providers, with a market-leading position in insured individual pensions. It includes approximately £22 billion total AUA in retail individual pensions and £21 billion total AUA in Wrap individual pensions as at 31 December 2017. Integration with Wrap platform provides access to an extensive range of investment options from Aberdeen Standard Investments and external investment managers.
European Business	£23.7 billion	Standard Life Assurance's European business comprises the following segments: • German closed book with-profits business and unit-linked products in Germany (approximately £11.2 billion) Standard Life Assurance's branch in Germany was established in 1996 and extended sales into

Business segment	AUA at 31 December 2017	Description
		Austria in 1997. The unit comprises a large closed book as well as a smaller book of open business with a total of 500,000 policies. All business is written in the German branch of Standard Life Assurance and sales are through financial advisers. The run-off profile of the closed book business is very long and is enhanced by significant and ongoing level of inflows from existing customers. Assets are forecast to be around current levels for several years before starting to reduce. Moreover, many customers will convert their policy proceeds to an annuity, adding further to the length of the run-off profile.
		• Legacy products in Ireland and modern products for the Irish domestic market (approximately £6.2 billion) Standard Life Assurance's branch in Ireland was established in 1834 and has enabled domestic Irish customers to save for their future financial needs, secure an income in retirement and provide financial security for their dependents for many years. Its growth and development closely followed that of the UK business for many years, but for the past ten years the more traditional adviser market has remained the focus in Ireland. The Irish branch has approximately 90,000 policies in total.
		• Offshore bonds distributed in the UK via independent financial advisers (approximately £6.3 billion) Single premium bond business for UK customers looking to access an offshore investment vehicle beyond those available in the UK. The business comprises approximately 19,700 policies with an average size of approximately £300,000.

Recent trends and results of operations

Standard Life Assurance's UK markets have seen a number of significant changes over a relatively short period of time. These have had the impact of changing the business environment and accelerating the need for business models to evolve to meet current and future client needs. Some notable examples of these changes to the market are detailed below.

Auto-enrolment

Auto-enrolment has fundamentally changed the way people save for their retirement. The UK Government introduced auto-enrolment in 2012 in part to help close the gap between what individuals need to save for their retirement and the amount of money they were currently setting aside. Auto-enrolment requires employers to provide pension schemes to all employees, on an opt-out basis, and by the end of May 2018 there will be ten million employees enrolled across the UK. In addition, from April this year the minimum required contributions will increase.

Pensions Freedom

The Government announced in the 2014 Budget to start in the 2015/16 tax year the removal of the need to use pension savings to buy an annuity. This entailed that anyone aged 55 and over had access to their whole pensions savings and could use it as they wanted (e.g., take the whole amount as a lump sum, paying no tax on the first 25% and the rest taxed as if it were a salary at their income tax rate). This led to a dramatic reduction in the market for annuities and a corresponding increase in customers drawing down a proportion of their pension savings in some form.

Historically, it had been very unappealing for certain individuals to leave a defined benefit scheme but the rule changes associated with pensions freedoms coincided with historically low gilt yields, which had a significant effect on the transfer values for defined benefit pensions. This has made transferring from a defined benefit to a defined contribution pension, with the associated more relaxed rules around access and inheritance, more relevant to certain customer segments of the defined benefit market.

Summary results of operations

A summary of the significant factors impacting Standard Life Assurance's financial condition and operating results during the years ended 31 December 2017, 2016 and 2015 is set out below.

Standard Life Assurance's profit after tax for the year ended 31 December 2017 was £344 million (2016: £239 million). The increase of £105 million from the prior year reflects the impact of net outflows in Standard Life Assurance's older books of business, offset by a reduction in investment return and the associated effect on third party interest in the consolidated investment funds.

Standard Life Assurance's profit after tax for the year ended 31 December 2016 was £239 million (2015: £209 million). The increase of £30 million from the prior year reflects the increase in investment return from positive equity performance and reduced yields generating gains on debt securities, offset by increases in liabilities as a result of these factors.

History

The Life Insurance Company of Scotland was established in 1825. In 1832, its name was changed to the Standard Life Assurance Company. It was reincorporated as a mutual assurance company in 1925. It originally operated only through branches or agencies of the mutual company in the UK and certain other companies. Its Canadian branch was founded in 1833 and its Irish operations were founded in 1834. This largely remained the structure of Standard Life until 1996, when it opened a branch in Frankfurt, Germany with the aim of exporting its UK life assurance and pensions operating model to capitalise on the opportunities present by EC Directive 92/96/EEC and offer a product range in the German market with features that local providers were unable to offer.

In the 1990s, Standard Life also sought to diversify its operations into areas which complemented its core life assurance and pensions business, with the intention of positioning itself as a broad range financial services provider. The Standard Life Investments business was launched as a separate company in 1998. Prior to 2004, Standard Life Assurance comprised pensions, annuities and savings products with integrated life insurance and protection business and was invested predominantly in with-profits holding £91 billion of total life and pensions assets under administration (including in Canada). Standard Life launched its individual pension in December 2004.

In the early part of 2004, Standard Life undertook a strategic review of its business. The strategic review was wide-ranging and examined the group's business in its entirety, both in the UK and overseas, assessing the potential for a number of operational and financial improvements, but with a particular focus on UK life and pensions business. It was also acknowledged that the group's mutual structure, and the increased regulation to which it was subject, imposed limitations on its ability to access additional capital and could limit opportunities for planned growth and development, placing Standard Life at a disadvantage to insurance companies which did not have such a structure. On 10 July 2006, after a 98 per cent. "yes" vote from eligible voting members who voted, the Standard Life Assurance Company demutualised and Standard Life was floated on the LSE and joined the FTSE 100 index.

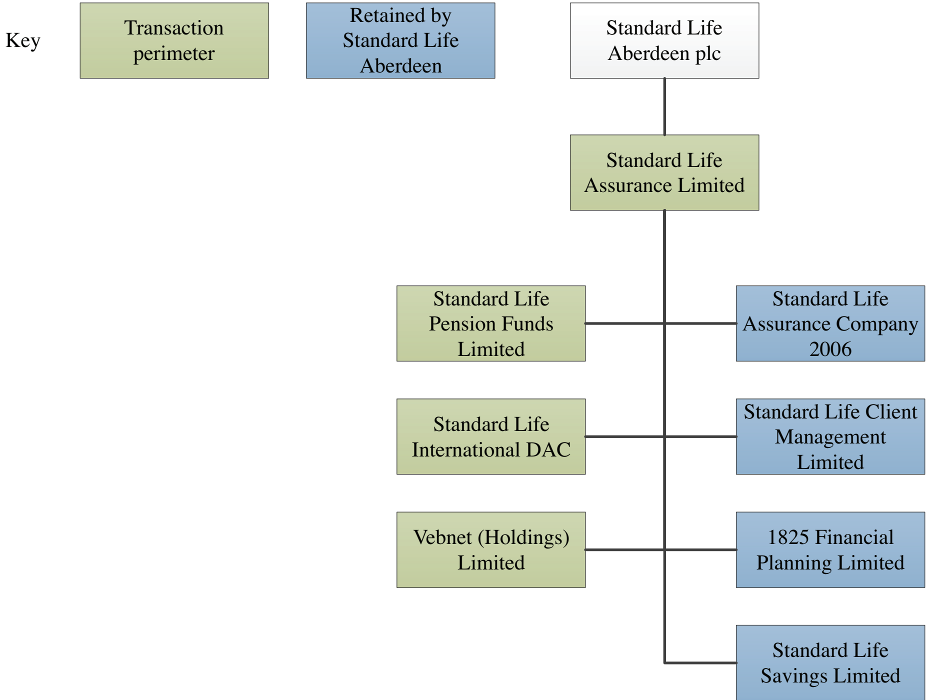
In recent years, Standard Life predominantly closed its with-profits funds to new business, other than to small amounts of unit-linked pensions and with-profits bonds. In addition, Standard Life Healthcare, Standard Life Bank and the Canadian companies were sold, with Standard Life shifting its focus to offering capital light pensions and savings propositions through third party advisers, workplace clients and direct to customers.

Standard Life launched its Wrap platform in 2006. In 2016, with the acquisition of Elevate, Standard Life created one of the largest and fastest growing platform businesses in the UK. These retail platforms will not be part of Standard Life Assurance.

Standard Life launched 1825, its wholly-owned financial planning business, in February 2015, with the acquisition of the wealth management business Pearson Jones. Between then and the end of 2017, it increased its presence across the UK with the acquisition of four further advice businesses. This advice business will not be part of Standard Life Assurance.

Structure of Standard Life Assurance

The following chart gives an overview of the legal structure and transaction perimeter for Standard Life Assurance and its principal companies as expected at the date of Completion. For a full list of the subsidiaries of SLAL as expected at the date of Completion, see paragraph 11.3 ("*Subsidiaries and Corporate Structure—SLAL*") in Part XV ("*Additional Information*") of this document.



Principal Investments

For information on Standard Life Assurance's principal investments, see Notes 12 and 15 to the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 in Part IX ("*Financial Information of Standard Life Assurance*") of this document.

Risk management

Standard Life Assurance has an established and well-defined organisational and operational structure with clearly defined roles, responsibilities and reporting lines to ensure that appropriate spans of control operate throughout the organisation, in relation to its business activities and risk management.

Each business within Standard Life Assurance maintains a list of all of its decision-making committees. Each committee operates under its own terms of reference, which sets out its authority, purpose, scope and quorum details. The purpose of a quorum rule is to give decisions made by a committee enough authority to allow binding action to be conducted.

Standard Life Assurance's governance functions include Risk and Compliance, Internal audit and Actuarial who have responsibility for monitoring, reviewing, challenging and reporting on the status of Standard Life Assurance's risks on an ongoing basis. Fit and proper checks are carried out on applicable staff from key functions to ensure that they possess the competency, expertise and integrity necessary for the performance of their duties.

Standard Life Assurance operates a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for committees and individuals:

First line	Second line	Third line
Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Board to the Chief Executive and, through a system of delegated authorities and limits, to business managers.	Risk oversight is provided by the Chief Risk Officer and supported by the specialist Risk Management and Compliance functions across Standard Life Assurance as well as committees such as the Enterprise Risk Management Committee (ERMC) and with reporting to the Risk and Capital Committee (RCC). The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by non-executive Directors at the RCC.	Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

A key part of Standard Life Assurance's system of governance is the Enterprise Risk Management (ERM) framework. The ERM framework includes the methods and processes used to manage risks, and identify and seize commercial opportunities related to the achievement of Standard Life Assurance's objectives, protecting and enhancing value. It provides a framework for operating consistent risk management practices across Standard Life Assurance in a structured and forward-looking way that can be measured and repeated.

All of the ERM components are interconnected and work together to provide Standard Life Assurance with a holistic framework encouraging proactive and pre-emptive risk management across the Group. These ERM components include:

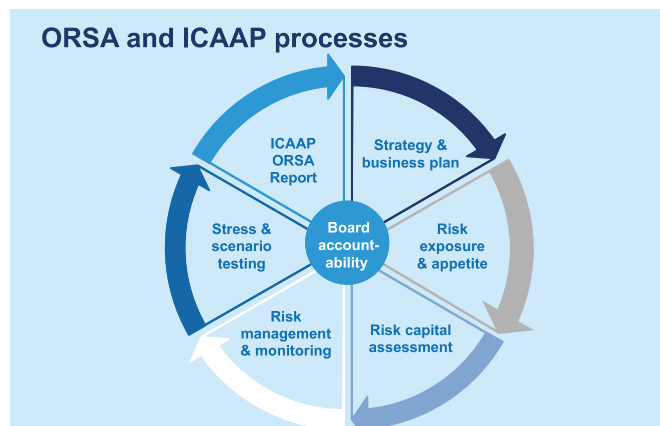
- **Risk culture**: this is the way individuals and the business think and act. It encompasses attitudes, capabilities and behaviours towards risk, which drives how Standard Life Assurance identifies, understands and openly discusses, and acts on, current and future risks;
- **Risk control processes**: these are the practices by which Standard Life Assurance manages risks and which are used to identify, assess, control and monitor risk;
- **Strategic risk management**: this forms an integral part of the strategic planning process and is directly linked to Standard Life Assurance's corporate objectives. It supports the development of long-term value by ensuring well informed risk-reward decisions are taken in pursuit of Standard Life Assurance's business plan;
- **Risk and capital models**: these measure Standard Life Assurance's risk exposures and capital position and test and understand the sensitivity of these positions; and
- **Emerging risks**: the aim is to identify risks before they materialise to help Standard Life Assurance anticipate future threats. The screening process looks across broad sources of risk, including geopolitical, technological, environmental and societal risks, and informs stress testing and capital adequacy requirements.

Standard Life Assurance's ERM framework is underpinned by the Own Risk and Solvency Assessment ("**ORSA**") process.

The ORSA process informs and develops:

- Standard Life Assurance's understanding of the current and potential risks to the business over product lifecycles. This includes both financial and non-financial risks and their potential to affect both long and short-term value;
- Standard Life Assurance's appetite to accept these risks and how to manage them;
- Standard Life Assurance's internal assessment of current solvency and capital requirements with respect to the risks; and

- a forward-looking assessment of the risk and solvency needs of Standard Life Assurance over a multi-year time horizon in light of business plans.

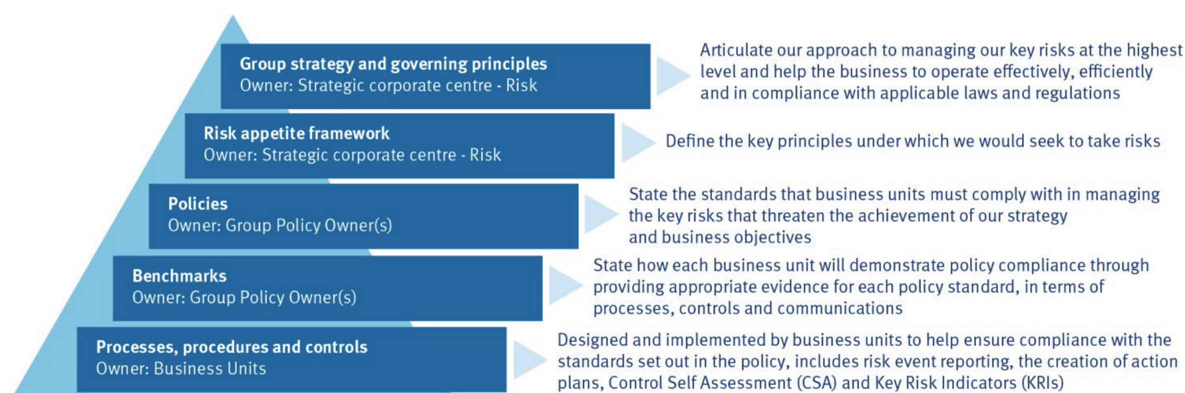


The ORSA process plays a key role in supporting decision making and strategy development at Standard Life Assurance's boards and risk committees.

A policy framework seeks to achieve the high level business objectives by providing a structure to help articulate how the code of conduct, governing principles and all of the policies and procedures fit together to make sure that the business and employees operate within approved limits and standards, as defined by the board of Standard Life Assurance.

The fair treatment of customers is integral to all of Standard Life Assurance's business activities and of fundamental importance. As such, policies are implemented with their specific impact on the customer in mind.

This framework provides a structured process for developing and implementing policies consistently across the Group. It operates on five levels:



For a description of the Enlarged Group's risk management following Completion, see the section headed "*Risk management*" in Part IV ("*Business Overview of the Group*") of this document.

Regulatory

Standard Life Assurance and the thematic review on the fair treatment of long-standing customers in the life insurance sector

For further information on the thematic review on the fair treatment of long-standing customers in the life insurance sector, see the section headed "*The thematic review on the fair treatment of long-standing customers in the life insurance sector*" in Part VI ("*Regulatory Overview*") of this document.

The FCA published Finalised Guidance FG16/8: Fair treatment of long-standing customers in the life insurance sector on 9 December 2016. SLAL completed its internal review of business practices on 8 March 2017 within the timescales set by the FCA.

SLAL's internal review of its business practices concluded that they supported the delivery of fair outcomes for customers, and certain improvement actions were identified and are in progress. The findings of the internal review were shared with the FCA in April 2017.

Standard Life Assurance and the thematic review on annuity sales practices

For further information on the thematic review on annuity sales practices, see the section headed "*The thematic review on annuity sales practices*" in Part VI ("*Regulatory Overview*") of this document.

Standard Life Aberdeen has established a provision of £248 million in its 2017 annual accounts as an estimate of the redress payable to SLAL annuity customers, as well as the costs of conducting the review and other related costs and expenses. As at 31 December 2017, the total costs amounted to £27 million. The provision and timeline for customer redress are based on assumptions and it will not be until the review is underway and further progressed that these will be confirmed and validated. There is a risk that the underlying assumptions are incorrect, which may result in an overall cost that is higher or lower than the provision. The Standard Life Aberdeen group has not provided for any possible FCA-levied fine relating to the review.

Pensions

Standard Life Assurance provides an insurance backed company pension for its employees in Germany which will be maintained by Standard Life Assurance for active members on Completion. Standard Life Aberdeen will retain historic liability under the German pension for employees who left the Standard Life Aberdeen group before the employees in Germany and their pension transferred to Standard Life Assurance in February 2017. One employee of Standard Life Assurance in Germany has the benefit of a pension promise that is indemnified by Standard Life Aberdeen.

The employees in the UK and Ireland who will transfer from Standard Life Aberdeen to Standard Life Assurance (as described below) will no longer be eligible to participate in the Standard Life Aberdeen pension plans following their transfer (with the exception of the defined contribution pension plan in Ireland which Phoenix may elect to continue) and will be offered replacement pension provision in accordance with applicable law.

Standard Life Aberdeen will retain liability for pension commitments and indemnify the Group in relation to liabilities arising under or in relation to the Standard Life Republic of Ireland Staff Pension Scheme and (unless this scheme is continued by Phoenix) the Standard Life Republic of Ireland Defined Contribution Scheme. Standard Life Aberdeen has also provided an indemnity in favour of the Group in relation to any contribution notice or financial support direction that may be made in relation to the Standard Life Staff Pension Scheme or any other defined benefit pension scheme operated by Standard Life Aberdeen.

Employees

It is anticipated that approximately 3,200 full-time equivalent employees in total (including employees of SLAL) will be included as part of the Acquisition, of which approximately 2,700 full-time equivalent roles are based in the UK, approximately 250 in Ireland and approximately 250 in Germany and Austria.

Other than the employees based in Germany and Austria who are employed by Standard Life Assurance, the employees who support the Standard Life Assurance business in the UK and Ireland are employed by Standard Life Aberdeen. It is intended that, subject to appropriate consultation, those employees in the UK and Ireland will transfer to SLAL Newco. The employment of the majority of these employees who are already assigned to the Standard Life Assurance business is likely to transfer by operation of law.

Properties

There is no existing or planned property, plant or equipment which is individually material to Standard Life Assurance. Standard Life Assurance owns or controls, generally through licences or other contractual arrangements or via long-term leases, the property, plant and equipment necessary to its operations.

For further information on Standard Life Assurance's property, plant and equipment, any major encumbrances thereon and the principal environmental issues that may affect Standard Life Assurance's utilisation of the property, plant and equipment that it owns or controls, see Note 13 to the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 in Part IX ("*Financial Information of Standard Life Assurance*") of this document.

PART VI—REGULATORY OVERVIEW

Overview

The Group's operations are, and the Enlarged Group's operations will be, subject to extensive government regulation, including FSMA and other UK laws, including, for example, the Data Protection Act 1998 in relation to the processing of customer data. Some of these laws require, and will require, the relevant Group entity to be authorised, licensed or registered. Below is an overview of the regulatory framework for the insurance industry in the UK. While the bulk of the Group's activities are carried out in the UK, reference is also drawn to non-UK laws and regulation where appropriate.

FSMA

All of the Phoenix Life Companies in the UK are currently dual-regulated by the FCA (for conduct matters) and the PRA (for prudential matters), whilst other companies in the Group are solely regulated by the FCA (for both conduct and prudential matters).

Approach to regulation

The FCA employs a risk-based and proportionate approach to supervision comprising a firm systemic framework, which focuses on the continuous assessment of how firms manage the risks they create and identifying the root causes of risk.

The PRA employs a judgement-based, forward-looking and focused approach to regulation using a proactive intervention framework to identify and respond to risks at an early stage. The position of each insurer is reviewed regularly to ensure that the PRA's level of supervision is appropriate.

The FCA and PRA expect firms to avoid actions that jeopardise compliance with their statutory objectives. When the FCA and PRA are concerned that a firm may present a risk this may lead to negative consequences, including the requirement to maintain a higher level of regulatory capital (via capital "add-ons" under Solvency II) to match the higher perceived risks, and enforcement action where the risks identified breach the FCA and PRA's high-level principles or more prescriptive rules.

Overview of FSMA regulatory regime: dual regulators

The FCA and PRA regulate persons carrying out the regulated activities prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, as amended in the financial services sector. In this regard, the FCA and PRA are authorised to make rules and issue guidance in relation to a wide sphere of activities encompassing the governance of a firm, the way it conducts its business and the prudential supervision of firms. The FCA regulates the conduct of every authorised firm (including firms who are regulated by the PRA). The PRA has responsibility for carrying out the prudential regulation of banks, insurance companies and systemically important designated investment firms. These firms are referred to as "dual-regulated" because they are authorised and regulated by the PRA (for prudential matters) and also regulated by the FCA (for conduct matters).

Permission to carry on "Regulated Activities"

Under FSMA, no person may carry on or purport to carry on a regulated activity by way of business in the UK, in respect of a specified investment or property, unless he is an authorised or exempt person. A firm that is authorised by the FCA (and PRA, if relevant) to carry on regulated activities becomes an authorised person for the purposes of FSMA. "Regulated activities" are currently prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) and include insurance-related activities and investment activities (which includes managing investments), as well as certain other activities such as establishing, operating and winding up stakeholder pension schemes, the mediation of general insurance and certain mortgage mediation and lending activities. Where an entity is domiciled outside the UK, other regulatory authories' authorisation may need to be sought. See "*Other regulatory systems*" below.

Authorisation procedure

In granting a UK firm's application for authorisation, the FCA and PRA (if applicable) may delineate the scope of, and include such restrictions on, the grant of permission as the relevant regulator deems appropriate. Dual-regulated firms must apply to the PRA for authorisation, whilst solo-regulated firms (i.e. firms regulated solely by the FCA) must apply to the FCA. In granting or varying the terms of a firm's permissions, the FCA and PRA must ensure that the firm meets certain

threshold conditions, which, among other things, require the firm to have adequate resources for the carrying on of its business, and to be a fit and proper person, having regard to all the circumstances.

Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply (as relevant) with the FCA Handbook and the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA (the "**PRA Rulebook**") which contain detailed rules covering, among other things, systems and controls, conduct of business and prudential (i.e. capital) requirements.

Principles for Businesses

The FCA Handbook and the PRA Rulebook contain high-level standards for conducting financial services business in the UK, known as the Principles for Business (in the case of the FCA Handbook) and the Fundamental Rules (in the case of the PRA Rulebook). All firms are expected to comply with these standards, which cover the maintenance of adequate systems and controls, treating customers fairly, communicating with customers in a manner that is clear, fair and not misleading and being open and co-operative with the FCA and PRA.

Application of FSMA regulatory regime to the Group

Each of the Group's principal UK insurance and investment businesses is, and each of the Enlarged Group's principal UK insurance and investment businesses will be, subject to regulation and supervision by the FCA (and additionally, for dual-regulated firms, the PRA) in the carrying-on of the Group's regulated activities. The discussion below considers the main features of the regulatory regime applicable to the Group's insurance and pensions business in the UK.

Regulation applicable to the Group's insurance business

Supervision of management and change of control of authorised firms

One of the methods by which the FCA and PRA supervise the management of authorised firms is through the Senior Manager and Approved Persons regimes.

The Senior Manager regime became fully effective in April 2016. The Senior Manager regime is a new regulatory framework introduced by the FCA and PRA that aims to (i) make sure that insurance firms and groups have a clear and effective governance structure and (ii) enhance the accountability and responsibility of individual senior managers.

To some extent, the Senior Manager regime incorporates the existing Approved Persons regime, which provides that persons who hold positions of significant influence within an authorised firm must be pre-approved by the FCA and, if relevant, the PRA ("**Approved Persons**"). For dual-regulated firms, certain Approved Persons, such as directors, are approved by the PRA who will consult with the FCA in relation to such approval. This was further enhanced following the implementation of Solvency II in early 2016. The PRA has introduced a specialist senior managers regime for UK insurers and reinsurers in-scope of Solvency II, which is known as the senior insurance managers regime ("**SIMR**"). In October 2017, the PRA made certain optimisations of the SIMR following public consultation. The UK government has announced its intention to apply the full Senior Manager regime to all authorised financial services firms during the course of 2018, including insurers.

Change of control of authorised firms

The FCA and PRA also regulate the acquisition and increase of control over authorised firms. Under FSMA, any person proposing to acquire control of, or increase (or decrease) control over, an authorised firm must first obtain the consent of the FCA and, if necessary, the PRA. In relation to dual-regulated firms, such as the Phoenix Life Companies, approval to the change of control is sought from the PRA who will consult with the FCA. In considering whether to grant or withhold its approval to the change of control, the FCA and PRA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by its acquisition of, or increase in, control.

A person ("**A**"), will acquire control (in accordance with Section 181 FSMA, and be a "controller") of an authorised person ("**B**") if they hold:

(a) 10 per cent. or more of the shares in B or a parent undertaking of B ("**P**");

(b) 10 per cent. or more of the voting power in B or P; or

(c) shares or voting power in B or P, as a result of which A is able to exercise significant influence over the management of B.

In order to determine whether A or a group of persons is a controller, the holdings (shares or voting rights) of A and other persons acting in concert with A (pursuant to an explicit or implicit agreement between them), if any, are aggregated.

A person ("**A**") will be treated as increasing (or decreasing) his control over an authorised firm ("**B**"), requiring prior approval from the FCA (and PRA, if appropriate) if:

(a) the level of his percentage shareholding or voting power in B or P crosses the 10 per cent., 20 per cent., 30 per cent. or 50 per cent. threshold; or

(b) if A becomes a parent undertaking of B.

Intervention and enforcement

The FCA and PRA have extensive powers to intervene in the affairs of an authorised firm and monitor compliance with their objectives, including withdrawing a firm's authorisation, prohibiting individuals from carrying on regulated activities, suspending firms or individuals from undertaking regulated activities and fining firms or individuals who breach their rules.

The FCA can also sanction persons who commit market abuse and can apply to the Court for injunctions and restitution orders. In addition to its ability to apply sanctions for market abuse, the FCA has the power to prosecute criminal offences arising under FSMA, insider dealing under Part V of the Criminal Justice Act 1993 and breaches of the Money Laundering Regulations. The FCA has indicated that it is prepared to prosecute more cases in the criminal courts where appropriate.

The FCA and PRA may also vary or revoke a firm's permission to carry on regulated activities or a Senior Manager's approved status for reasons including: (i) if it is desirable to protect the interests of consumers or potential consumers; (ii) if the firm has not engaged in regulated activity for 12 months; or (iii) if it is failing to meet the threshold conditions for authorisation. The FCA and PRA have further powers to obtain injunctions against authorised persons and to impose or seek restitution orders where persons have suffered loss. Once the FCA and PRA have made a decision to take enforcement action against an authorised firm or Approved Person (other than in the case of an application to the Court for an injunction or restitution order), the person affected may refer the matter to the Upper Tribunal (Tax and Chancery Chamber). Breaches of certain FCA and PRA rules by an authorised firm may also give a private person, who suffers loss as a result of the breach, a right of action against the authorised firm for damages.

The FCA and PRA, although not creditors, may seek administration orders under the Insolvency Act 1986 (as amended), present a petition for the winding-up of an authorised firm or have standing to be heard in the voluntary winding-up of an authorised firm. It should be noted that insurers carrying on long-term insurance business cannot voluntarily be wound up without the consent of the PRA.

FCA Conduct of Business Rules

The FCA's Conduct of Business Rules apply to every authorised firm carrying on regulated activities in the UK and regulate the day-to-day conduct of business standards to be observed by authorised persons in carrying on regulated activities. Whilst the FCA is primarily responsible for conduct regulation, the PRA will also seek to ensure that firms that it regulates conduct their business in a safe and sound manner.

The scope and range of obligations imposed on an authorised firm under the Conduct of Business Rules vary according to the scope of its business and the range of its clients. Generally speaking, however, the obligations imposed on an authorised firm by the Conduct of Business Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the firm, meet certain standards of product disclosure, ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products and managing portfolios, manage conflicts of interest and report appropriately to its clients.

The FCA's Supervision Manual contains specific requirements at Appendix 2.15 for insurers that have ceased to take on new business and are in run-off. Equally some of the FCA Conduct of Business Rules, for example in relation to the sale of new policies, have no relevance to such companies.

FCA "Outcomes"

The FCA has three operational objectives: (i) to secure an appropriate degree of protection for consumers; (ii) to protect and enhance the integrity of the 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 Treating Customers Fairly outcomes: (i) consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture; (ii) products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly; (iii) consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale; (iv) where consumers receive advice, the advice is suitable and takes account of their circumstances; (v) consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect; and (vi) consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Prudential supervision

As set out above, in order to maintain authorised status under FSMA, a firm must continue to satisfy the threshold conditions for authorisation, which, among other things, require the firm to have adequate resources for the carrying on of its business. The FCA and PRA have published detailed rules relating to the maintenance of minimum levels of regulatory capital for insurance and investment businesses in the Prudential Standards section of their FCA Handbook and PRA Rulebook, respectively. For further information, see the paragraph headed "*Solvency II*" below.

The FCA's and PRA's regulatory capital rules for insurers and investment firms are primarily contained in the Solvency II prudential framework.

The Financial Ombudsman Service (the "FOS")

Authorised firms must have appropriate complaints handling procedures. However, once these procedures have been exhausted, qualifying complainants may turn to the FOS which is intended to provide speedy, informal and cost effective dispute resolution of complaints made against authorised firms by individuals and small-business customers. The FOS is empowered to order firms to pay fair compensation for loss and damage and may order a firm to take such steps as it determines to be just and appropriate to remedy a complaint. In January 2018, the FCA consulted on its proposal to allow approximately 160,000 small- and medium-sized enterprises to refer disputes to the FOS, which would significantly expand access to the FOS.

The Financial Services Compensation Scheme ("FSCS")

The FSCS is intended to compensate individuals and small businesses for claims against a UK authorised firm where the authorised firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The scheme is also intended to promote confidence in the financial system by limiting the systemic risk that the failure of a single firm might trigger a wider loss of confidence in the relevant financial sector. The scheme covers banking, insurance, investment business and mortgage advice, reflecting the different kinds of business undertaken by authorised firms. It is funded primarily by levies on participating firms that consist of (i) a management expenses levy comprising a base costs levy that relates to the cost of running the FSCS each year and a specific cost for the running costs attributable to a specific funding class and (ii) a compensation costs levy which relates primarily to the costs incurred by the FSCS in paying compensation. Note that, in respect of SLIDAC, there is not an equivalent Irish compensation scheme for life insurers authorised in Ireland.

Insurance Guarantee Schemes

Currently there are no rules at the EEA level requiring the member states of the EU ("**EU Member States**") to adopt insurance guarantee schemes such as that established by the FSCS. The European Commission published a white paper in 2010 discussing the necessity of insurance guarantee schemes and indicated that it is considering proposing a directive with regard to such schemes. As at the date of this document, no proposals for this directive have been published. It is possible that if such a directive were introduced, it may affect the operation of the FSCS.

Conduct of Business requirements for insurance business

The Conduct of Business Rules issued by the FCA apply differing requirements to the sale of (i) general insurance contracts and (ii) long-term insurance contracts. Within (ii), more stringent requirements apply where the contract has an investment value or otherwise is a product which historically gave rise to mis-selling problems. Authorised firms which advise and sell packaged products (such as life insurance policies) are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability for private customers, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

As an insurer in run-off, a number of the Conduct of Business Rules relating to the sale of new policies do not concern the Phoenix Life Companies. However, there are certain rules relating to:

- information to be provided to existing policyholders;
- cancellation rights;
- the handling of claims;
- treating with-profit policyholders fairly; and
- pensions transfers and the open market option,

which apply regardless of whether or not the insurer is actively selling its products.

Gender discrimination issues

In 2011, the Court of Justice of the European Communities ruled against the use of gender in setting premiums or benefits under insurance contracts. The effect of this ruling was postponed to 21 December 2012. The decision of the Court of Justice was implemented into UK law by the Equality Act 2010 (Amendment) Regulations 2012, which amends the Equality Act 2010. The amendments to the Equality Act 2010, which took effect on 21 December 2012, remove a provision in the Equality Act 2010 which had previously allowed gender-sensitive pricing of insurance premiums and benefits. It affects, among other things, the pricing of annuities, life insurance policies and the annuity rates which may be offered when pension policies mature.

With-profit business

The FCA and PRA coordinate their supervision of insurers. The FCA has responsibility for monitoring whether any changes to benefits or payments are consistent with the insurer's previous communications to policyholders, and the insurer's overriding obligation to treat customers fairly. The FCA and PRA have published a Memorandum of Understanding which sets out how the two regulators will co-operate in their supervision of insurers with policyholders who hold with-profits insurance policies. The FCA is responsible for satisfying itself that firms are behaving fairly in relation to the exercise of discretion whilst the PRA's focus is on ensuring that discretionary increases in liabilities do not adversely affect the insurer's ability to meet, and continue to meet, the PRA's standards for safety and soundness. Given the respective focuses of the PRA and FCA, as of 1 January 2016, the PRA deleted certain of its conduct-related rules relating to with-profits policyholders from its PRA Rulebook and those rules now remain only in the FCA Handbook.

Changes were also made to the corresponding FCA rules on 1 January 2016 in order to implement Solvency II, including in relation to conduct issues and to make changes to certain definitions. For further information, see the paragraph headed "*Solvency II*" below.

Actuarial functions

Every insurance company that is regulated under Solvency II must appoint one or more actuaries (external or in-house) to perform the "actuarial function" in respect of all classes of its long-term insurance business. In addition, if it is regulated by the PRA and has any with-profit business, it must appoint one or more actuaries to perform the "with-profits actuary function" in respect of its with-profit business.

The PRA Rulebook requires that an actuary appointed to perform the with-profits actuary function must, among other things: (i) advise the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which the actuary has been appointed; (ii) advise the firm's governing body as to whether the assumptions used to calculate the future discretionary benefits within the firm's relevant technical provisions are consistent with the firm's Principles and Practices of Financial Management ("**PPFM**") in respect of those classes of the firm's

with-profits insurance business; and (iii) at least once a year, report to the firm's governing body on key aspects (including those aspects of the firm's application of its PPFM on which the advice described has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of with-profits insurance business of the firm.

Distribution of profits and with-profit business

The PRA Rulebook requires firms carrying on with-profits business to ensure that their distribution strategies are affordable and sustainable. For further information, see the paragraph headed "*Solvency II*" below.

The PRA Rulebook also mandates that firms carrying on with-profit business must:

- define and make publicly available the PPFM applied in their management of with-profit funds;
- ensure their governance arrangements offer assurance that they have managed their funds in line with the PPFM they have established and published;
- produce annual reports for with-profit policyholders on how they have complied with this obligation, including how they have addressed any competing or conflicting rights, interests or expectations of policyholders and, if applicable, shareholders;
- comply with (i) modified regulatory reporting requirements designed to achieve the PRA's objective of making directors and senior management more explicitly responsible for setting up technical provisions and other decisions taken on actuarial advice and (ii) new audit requirements for liabilities; and
- comply with consequential changes to certification in the insurance returns.

Transfers of insurance business

Any transfer of UK insurance business (as defined under FSMA) must be effected in accordance with Part VII of FSMA and relevant secondary legislation, which requires a scheme of transfer to be prepared and approved by the High Court in England and Wales (the "**Court**"). Amongst other things, a report of an independent expert is required on the terms of the scheme, which would consider whether the proposed transfer would be prejudicial to policyholders. The regulators also have an important role in a transfer under Part VII of FSMA, including in relation to certain approvals for specific steps in the transfer process (such as the approval by the PRA (in consultation with the FCA) of the appointment of the independent expert and the form of the independent expert's report) and in advising the Court whether a transfer should be approved. A Part VII scheme of transfer enables direct insurers and reinsurers to transfer all or part of their books of business to another approved insurer by operation of law without the need for individual policyholder consents, although policyholders have the right to object to the proposed scheme at the Court hearing. A scheme of transfer may also allow for the transfer of assets and other contracts related to the business so as to give proper effect to the transfer. A transfer of insurance business means a transfer of insurance policies and should be distinguished from the change of control of a business effected by a transfer of shares in an insurance company.

Solvency II

Solvency II has applied since 1 January 2016.

The Solvency II prudential framework has updated, among other things, the existing EU life, non-life, reinsurance and insurance groups directives. The main aim of the framework is to protect policyholders through establishing prudential requirements better matched to the true risks of the business, taking into account other regulatory objectives of ensuring the financial stability of the insurance industry and stability of the markets. Like the Basel III reforms introduced in relation to banks in 2014, the new approach is based on the concept of three pillars: quantitative requirements (the amount of regulatory capital an insurer should hold), qualitative requirements on undertakings such as risk management as well as supervisory activities, and enhanced disclosure and transparency requirements. It is also directionally consistent with Pillar 2, being on an economic capital basis.

Solvency II contains rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;

- the maintenance of an MCR and a higher and more risk sensitive solvency capital requirement ("**SCR**");
- what regulatory capital is eligible to cover technical provisions, the MCR and the SCR, and to what extent specific tiers of capital may so count;
- what regulatory capital or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- to what extent a firm's regulatory capital models may be used to calculate the SCR;
- governance requirements including risk management processes;
- considerably expanded reporting requirements covering (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process and (ii) matters to be published in a "Solvency and Financial Condition Report";
- rules providing for the SCR to be supplemented by a "regulatory capital add-on" in appropriate cases, the add-on to be imposed by the relevant supervisor (the PRA in the case of UK firms and the CBI in the case of SLIDAC);
- rules on insurance products which are linked to the value of specific property or indices;
- the application of the above requirements across insurance groups, including a specific regime for insurance groups with centralised risk management and an enhanced role for the "group supervisor" of international groups, who will be required to work in conjunction with a "college of supervisors" responsible for specific solo members of the group; and
- provision for the supervision of insurance groups headed by an insurance company or insurance holding company with a head office outside the EEA.

Level 2 rules, which supplement Solvency II with more detail, were adopted by the European Commission on 10 October 2014 and entered into force on 18 January 2015. On 30 September 2015, the European Commission proposed amendments to these rules as part its initiative to build a Capital Markets Union. These amendments included, amongst other things, proposals to alter certain regulatory capital requirements of Solvency II with the intention of providing insurance companies with incentives to invest for the long-term in infrastructure and European Long-Term Investment Funds. The European Commission's Delegated Regulation making the relevant amendments was subsequently published on 1 April 2016 in the Official Journal of the EU and entered into force on 2 April 2016. The UK House of Commons Treasury Select Committee launched an inquiry into Solvency II which explored the impact of the new regime and the options now available to the UK in the light of its vote at the national referendum of June 2016 to withdraw from the European Union. The outcome of the inquiry was published on 27 October 2017 and recommends that the PRA should have a pragmatic discussion with the insurance industry. This should focus on the scope for amendments and increased proportionality in the implementation of Solvency II. In the fourth quarter of 2017 and January 2018, the PRA published a series of consultation papers seeking to optimise the implementation of Solvency II in the UK. The consultations cover: (i) guidance on the eligibility of assets for the "matching adjustment"; (ii) the minor model change process; and (iii) a reduced reporting burden on firms.

The UK rules generally replicate the Level 2 implementing rules other than in certain instances, such as the need to provide for with-profit funds in the context of long-term insurance funds no longer being recognised under Solvency II. Under Solvency II, "ring-fenced funds" are funds the assets of which may have a reduced capacity to fully absorb losses in other parts of the insurer on a going concern basis. The PRA rules contain a requirement (which came into effect on 1 January 2016) that firms hold, within each of their with-profits funds, assets that are sufficient to meet the with-profits liabilities of such funds. In March 2015, the FCA published a policy statement containing its own final rules to implement Solvency II. The final rules use a new definition of "with-profits fund surplus" in relation to Solvency II firms' with-profits business, being, in summary, the difference between the assets in the fund and the liabilities in the fund. Only the with-profits fund surplus may be distributed to policyholders and shareholders. The PRA has also stated in a supervisory statement that restrictions on assets and Own Funds resulting from the nature of, and regulatory regime for, with-profits insurance business in the UK will generally mean that each with-profits fund displays the characteristics of a ring-fenced fund for the purposes of Solvency II. In the same supervisory statement, the PRA also notes that firms sometimes have support arrangements in place which seek to provide support to a with-profits fund from financial resources outside that fund; the final rules

require that the terms of any such support arrangement be clarified and codified. In addition, depending on the facts or circumstances, the Board may apply capital management policies to control the distribution of capital.

The Solvency II framework includes a regime for insurance groups and specific provision for groups the parent undertakings of which have their head offices outside the EEA. This applies to the Company, as it is outside the EEA.

The treatment of such groups depends, among other things, on whether the jurisdiction in which the parent has its head office is determined to have an equivalent group regime. The equivalence of non-EEA countries is relevant to three distinct provisions of Solvency II:

- for the purpose of determining whether reinsurance ceded to a reinsurer authorised in that jurisdiction should be treated in the same way as reinsurance ceded to an EEA firm;
- for the purpose of determining whether in assessing group solvency, a non-EEA firm should (i) be treated as if it were an EEA firm or whether (ii) its contribution to group solvency may be determined by reference to local rules. In that case a determination of equivalence allows the group solvency of the participating undertaking to be calculated taking into account, as regards the firm, its SCR and Own Funds eligible to satisfy that requirement as laid down by the third country concerned. This only applies where the deduction and aggregation method of calculating group solvency is used, rather than the default accounting consolidation-based method; and
- for the purpose of determining whether the standard of group supervision in the jurisdiction concerned is equivalent to EEA standards. If that group supervision is deemed to be equivalent it shall be relied upon by EU Member States. However, in the absence of an equivalence determination (or in a temporarily equivalent third country where the "balance sheet total" of the EEA firm is greater than that of the third country parent undertaking), such groups will be supervised within the EEA either by applying Solvency II rules at the worldwide group level or by applying 'other methods' which ensure appropriate group supervision. Such methods may include a requirement for the establishment of an insurance holding company or mixed financial holding company within the EEA and the application of Solvency II rules to the group headed by that holding company.

A determination of 'equivalence' either by the European Commission generally, or by the group supervisor in relation to a specific group, confirms that a third country's insurance regime is deemed to have an equivalent level of protection to that provided by Solvency II. However, the European Commission may also recognise equivalence on a temporary or provisional basis.

A PRA waiver in relation to the Group was in place for the period from 1 January 2016 to 30 June 2017. This permitted Group supervision to take place at the level of the ultimate EEA insurance holding company, PLHL, via "other methods" as opposed to full Group supervision. This waiver expired on 30 June 2017. For further information on the Group's structure, please see the section headed "*Structure of the Group*" in Part IV ("*Business Overview of the Group*") of this document.

Certain of the Group's subsidiaries are, and will be, authorised by the FCA to carry on investment business. These entities are subject to regulation and supervision by the FCA and must comply with the FCA's conduct of business and prudential rules made under FSMA.

Many insurance companies and insurance groups expect to benefit from using internal models to calculate their SCR (or specific risks or major business units within the SCR). However, they require supervisory approval to do this, as the PRA wants to ensure ongoing compliance with the Solvency II internal model requirements. The process of obtaining that approval is a rigorous one involving a full review of the firm's governance arrangements and proof that the internal modelling is fully used within the firm's business. Once a firm's internal model has been approved, it must report internal model outputs using the PRA's templates, so that the PRA can supervise internal models on an ongoing basis. The PRA may also impose regulatory capital add-ons if it considers that the resultant regulatory capital requirement does not reflect the risk exposures of the relevant firm or insurance group. On 7 December 2015, the Company announced that the PRA had approved the Group's Solvency II Internal Model application for the PLHL group and its subsidiaries. During March 2017, subsequent approval was received to extend the Internal Model to include the SunLife Embassy Business. In June 2017, approval was received from the PRA to extend the scope of the Internal

Model to the ultimate parent company, Phoenix. This Internal Model change covered all entities above PLHL in the Group structure. The Group made an application to extend its Internal Model to include Abbey Life and this was approved on 1 March 2018.

The Group notes that the technical implementation of Solvency II resulted in a significant increase in the technical provisions and regulatory capital requirements of the Phoenix Life Companies. However, these increases were mitigated to an extent by the introduction of transitional provisions, included in the Solvency II Directive, which are designed to ensure a smooth transition to the new regime. On 17 December 2015, the PRA confirmed that it had approved an application by the Phoenix Life Companies to apply Transitional Measures on Technical Provisions ("**TMTP**"). This allows for a transitional deduction on technical provisions which is the difference between the net technical provisions calculated in accordance with the Solvency II rules and the net technical provisions calculated in accordance with the previous regime. The benefit of the transitional provisions will be phased out over a 16-year period. There remains some uncertainty over the pace of run-off within that period. If the pace of run-off is faster than expected then this may defer the amount or timing of future cash releases from the Phoenix Life Companies.

It should be noted that SLIDAC is authorised and regulated by the CBI. Consequently, Solvency II (and any relevant Irish implementing provisions) are applied by the CBI, not the UK regulators. More generally, the prudential regulation of SLIDAC is a matter for the CBI, although Solvency II is a European directive and therefore many of the same principles and rules outlined above apply, notwithstanding the fact that certain discrete matters remain the subject of national discretion and therefore variation.

For further information, see also the risk factor entitled "*Regulatory capital and other requirements may change*" in the section of this document headed "*Risk Factors*".

Conduct of Business requirements for investment businesses and MiFID II

MiFID II, which came into force on 3 January 2018, provides for the regulation of EU securities and derivatives markets. MiFID II is comprised of (i) a substantially revised Markets in Financial Instruments Directive (2014/65/EU); (ii) the Markets in Financial Instruments Regulation ((EU) No 600/2014); and (iii) secondary legislation in the form of Delegated Acts made thereunder ("**MiFID II**").

MiFID II, sets out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and securities and derivatives trading venues. In particular, MiFID II makes specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling, suitability and appropriateness, product governance, telephone taping, investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting, commodity derivative position limits and reporting, and the ability of MiFID investment firms authorised in one EU Member State to use 'passports' to conduct MiFID investment services in other EU Member States.

MiFID II is more wide ranging than the previous MiFID regime (under the EU Markets in Financial Instruments Directive (2004/39/EC)) and has direct impact on MiFID investment firms and indirect impact on non-MiFID financial services firms who deal in EU securities and derivatives markets.

Data protection

On 25 May 2018, the GDPR replaced the existing data protection regime set out in the first Data Protection Directive (Directive 95/46/EC) on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The regulation contains measures that seek to harmonise data protection procedures and enforcement across the EU. It is directly binding on data controllers in all member states immediately upon coming into effect without the need for implementation by the member states. Importantly, the penalties for breach of the new GDPR regime are much more substantial.

The UK government has introduced the Data Protection Bill 2017 to Parliament, which, at the date of this document, was in the parliamentary scrutiny phase. If adopted, this Bill would exercise on the UK's part the limited discretion accorded to member states under the GDPR and deal with data processing issues not covered by the GDPR. In Ireland, this discretion is to be exercised by the Data Protection Act 2018, which was passed by the Oireachtas (Houses of Parliament) on 22 May 2018 and subsequently signed into law. Germany adopted national legislation in response to the GDPR in

a new version of the Federal Data Protection Act (the "Bundesdatenschutzgesetz") in late April 2017, which became effective together with the GDPR on 25 May 2018. The German legislator has used the "opening clauses" that allow member states discretion to customise certain provisions to tighten the rules over personal data of German citizens above and beyond what is required by the GDPR.

FCA thematic review

The thematic review on the fair treatment of long-standing customers in the life insurance sector

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

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

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

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

The FCA has not yet notified ALAC of its final conclusions regarding the outcome of the enforcement investigation. It is possible that, as a result of the investigation, ALAC may incur costs as a result of financial penalties (which may be incurred shortly after the FCA publishes its final conclusions) and/or other costs associated with the FCA's findings. Deutsche Bank has provided PLHL with an indemnity, with a duration of six years, in respect of such exposures. The maximum amount that can be claimed under the indemnity (when aggregated with claims under the indemnity in respect of the thematic review on annuity sales practices, as discussed further below) is £175 million and it applies to all regulatory fines and 60 to 90 per cent. of the costs of customer remediation. While this indemnity may mitigate ALAC's costs (and accordingly, the Group's costs), some costs will fall outside the scope of the indemnity and/or may exceed the maximum amount PLHL can claim under the indemnity and/or become irrecoverable should Deutsche Bank become subject to

insolvency or any other analogous events, meaning that ALAC (and accordingly, the Group) will ultimately retain liability for them. In addition, ALAC may also be the subject of private censure, public censure, adverse publicity and/or resulting reputational damage, which may in turn damage the Group, the effect of which will not be mitigated by any indemnity.

In May 2016, the FCA launched a consultation on proposals to cap early exit pension charges, both for existing contracts that contain an early exit charge (where it is proposed the cap would be 1 per cent. of policy value) and also new contracts (where no exit charge would be permitted). On 15 November 2016, the FCA announced that, from 31 March 2017, where a customer is over 55 years of age and therefore eligible to realise benefits from its pension pot, early exit charges will be capped at 1 per cent. of the value of existing contract-based personal pensions. For customers over 55 years of age, early exit charges that are currently set at less than 1 per cent. have not been increased. In addition, a cap on occupational schemes was introduced by the Department of Work and Pensions in October 2017. Phoenix introduced these changes in 2017 for all pension customers.

In June 2017, the FCA issued a request for information to assist them with planning the scope of their forthcoming Thematic Review of the Fair Treatment of with-profits customers. This information was supplied in August 2017. This work is ongoing.

For further information, see the risk factor entitled "*The thematic review on the fair treatment of long-standing customers in the life insurance sector may affect the Group's business*" in the section of this document headed "*Risk Factors*".

The thematic review on annuity sales practices

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

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

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

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

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

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

(a) identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA has asked those firms to review their practices since 2008, appoint skilled persons to oversee the review, and provide redress where necessary; and

(b) identified other areas of possible concern, including in relation to the recording and maintenance of records of calls.

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

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

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

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

For further information, see the risk factor entitled ''*The thematic review on annuity sales practices may affect the Group's business*'' in the section of this document headed ''*Risk Factors*''.

Other regulatory systems

While most of the Group's activities are in the UK (and therefore solely within the scope of the UK regulatory system), the Group includes, and the Enlarged Group will include, entities which operate outside the UK in a regulated environment. In particular, SLIDAC is authorised and regulated by the CBI. As previously stated, the prudential and conduct regulation of SLIDAC is a matter for the CBI and Irish law and regulation.

When policies are sold to policyholders situated in a member state, the regulation of that state may apply to the sale and administration of such policies, even though the transacting Group entity may be authorised and regulated in another jurisdiction. Members of the Group and the Enlarged Group carry on business in other member states under EU-wide passporting rights. Of particular note is SLIDAC, which is intended to operate the German business of SLAL after Brexit, and therefore certain of its activities will be subject to German regulation. Although those entities using passporting rights do not need to be authorised in each of the member states in which they carry on activities within the scope of those rights, such entities are required to comply with certain local laws and regulatory requirements, for example in respect of conduct of business rules, in relation to certain activities carried on in those countries. As a result, the law and regulation of various member states applies to the activities of certain members of the Group when they are dealing with customers in member states.

PART VII—FINANCIAL INFORMATION OF THE GROUP

PART A: SELECTED HISTORICAL FINANCIAL INFORMATION RELATING TO THE GROUP

The tables below set out Phoenix's selected consolidated financial information as at and for years ended 31 December 2017, 2016 and 2015. The data has been extracted without material adjustment from the Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015, which are incorporated by reference into this Part VII ("*Financial Information of the Group*") as described in Part XVI ("*Documents Incorporated by Reference*") of this document. Investors should read the whole of this document, including the information incorporated by reference into this document, and not rely solely on the summarised financial information below.

Selected consolidated income statement

	Year ended 31 December		
	2017	**2016**	**2015**
	(£ million) (audited)		
Net income	6,089	7,445	692
Total operating expenses	(5,964)	(7,393)	(404)
Finance costs	(132)	(122)	(136)
(Loss)/profit for the year before tax	**(7)**	**(70)**	**152**
Tax attributable to policyholders' returns	(21)	(58)	33
Tax credit attributable to owners	1	28	64
Tax (charge)/credit	(20)	(30)	97
(Loss)/profit for the year attributable to owners	**(27)**	**(100)**	**249**
Attributable to:			
Owners of the parent	(27)	(101)	201
Non-controlling interests	—	1	48
	(27)	(100)	249

Selected consolidated statement of financial condition

	As at 31 December		
	2017	**2016**	**2015**
	(£ million) (audited)		
Total assets	83,443	85,999	64,514
Total liabilities	80,288	82,666	61,510
Equity attributable to owners of the parent	3,155	3,333	2,434
Non-controlling interests	—	—	570
Total equity	**3,155**	**3,333**	**3,004**

PART B: HISTORICAL FINANCIAL INFORMATION RELATING TO THE GROUP

The audited consolidated financial statements of the Group for the financial years ended 31 December 2017, 2016 and 2015, prepared in accordance with IFRS, together with the audit reports and notes in respect of each such year, are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

PART VIII—OPERATING AND FINANCIAL REVIEW OF THE GROUP

The following operating and financial review is intended to convey the Directors' perspective on the operating performance and financial condition of the Group from 1 January 2015 to 31 December 2017. The discussion should be read in conjunction with the rest of this document, and the Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015, which are incorporated by reference into this document. The following 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 the section of this document headed "Risk Factors" and elsewhere in this document. See "Cautionary note regarding forward-looking statements" in the section of this document headed "Important Information".

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 document, which has been prepared in accordance with IASB IFRS. The Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015 have each been prepared on a historic cost basis except for investment property, owner-occupied property, and those financial assets and financial liabilities and investment contracts without discretionary participation features that have been measured at fair value.

This section also includes a discussion of the Group's liquidity and capital resources.

Key factors affecting the Group's 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 2015 to 31 December 2017 and/or which may affect the results of operations of the Group in subsequent periods.

Market update

In 2015, UK equity markets experienced falls with the FTSE All Share (Growth) Index closing at 3,444, 2.5 per cent. down on its level at 31 December 2014 of 3,533.

Gilt yields increased at all durations during 2015, with the benchmark 15-year gilt yield increasing by 23 basis points. Credit spreads widened across all ratings, whilst the All Property Index closed 14 per cent. above its 31 December 2014 level.

In 2016, uncertainty prior to and following the referendum on 23 June 2016 on the UK's membership of the EU contributed to increased market volatility in the period. The initial reaction to the vote to leave the EU increased volatility in exchange rates between sterling and the dollar and euro and resulted in significant falls in interest rates. Gilt yields fell across all durations during the year, with benchmark 15-year gilt yields falling by 70 basis points compared to the 31 December 2015 level. Credit spreads narrowed across all ratings.

The FTSE All Share index increased by 12 per cent. during the period, increasing to 3,873 as at 31 December 2016 from 3,444 as at 31 December 2015.

2017 saw further rises in equity markets, with the FTSE All Share index increasing by 9 per cent. to 4,222 as at 31 December 2017 from 3,873 as at 31 December 2016. Interest rates in that period were more stable, with the benchmark 15-year gilt yield falling by 8 basis points compared to the 2016 closing level. Credit spreads also narrowed in the period across all ratings.

The Group's results and financial condition can be affected by changes in market levels, including risk-free rates, corporate bond credit spreads, equity values and property values. The Group undertakes hedging activity to manage its exposure to market risks; however its hedging strategy is calibrated to protect the regulatory capital position and cash generation capability of the operating companies. This can create additional volatility in the IFRS results resulting from measurement and recognition differences between the Solvency II and IFRS bases. For example, the Group hedges its exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges to benefit the regulatory capital position. The impact of equity market movements on the value of hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not.

The 2015 results benefited from increasing yields in the period together with continued property gains, partly offset by the adverse impacts of widening credit spreads. The 2016 results were adversely impacted by falling gilt yields, losses on equity hedging positions on an IFRS basis that reduced in value following equity market gains and the widening of credit spreads. The 2017 results were also

adversely impacted by losses on equity hedging positions on an IFRS basis that reduced in value following equity market gains and losses on swaption positions held to hedge the impact of interest rate risk on the Group's regulatory position as a result of reduced volatility and expected option expiry.

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 and owners' funds on an IFRS basis were a negative £6 million for the year ended 31 December 2017, compared with a negative £207 million for the year ended 31 December 2016 and a positive £13 million for the year ended 31 December 2015. These items are detailed further in the section headed "*Operating profit for the Group for the years ended 31 December 2017, 2016 and 2015*" below.

Implementation of Solvency II

In accordance with EIOPA and PRA requirements, from 1 January 2016, the Group has undertaken a Solvency II group regulatory capital calculation and a solo assessment for each Phoenix Life Company. Since that date, regulatory capital adequacy for the Group is no longer monitored under the IGD or the PRA requirement for an ICA. As such, 31 December 2015 was the last date on which the Group reported its regulatory capital adequacy under those metrics.

From 1 January 2016 to 30 June 2017, the Solvency II capital assessment and the Group's regulatory supervision was performed at the PLHL level, as this was the highest EEA insurance holding company within the Group. This approach was supported by a waiver received from the prudential regulator that permitted Group supervision to take place at the level of the Company, via other methods as opposed to full supervision. This waiver expired on 30 June 2017.

From 1 July 2017, regulatory supervision and the solvency capital adequacy assessment were performed at both the Company and PLHL levels. This "dual reporting" continued until 31 January 2018 when the Company's head office was moved to the UK from Jersey. Post-expiry of the waiver, the Group's capital position has been managed at the Company level only, being the more onerous calculation. Accordingly, from 30 June 2017, the Group Solvency II Surplus is the relevant measure for financial reporting purposes. The PLHL Solvency II Surplus has not been reported from that date and no PLHL reporting to the PRA is required as at 31 December 2017. For further information, see the paragraph headed "*Solvency II*" in Part VI ("*Regulatory Overview*") of this document.

Calculation of the Solvency II Group regulatory capital calculations involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk based assessment using an internal model of the Group's SCR. For further information, see the paragraph headed "*Solvency II*" in Part VI ("*Regulatory Overview*") of this document.

The Group SCR is calibrated so that the likelihood of a loss exceeding the Group SCR is less than 0.5 per cent. over one year. This is meant to ensure that capital is sufficient to withstand a broadly '1 in 200 year event' and is calculated in accordance with the Group's Solvency II Internal Model. Management actions which could be undertaken to restore the Own Funds level above SCR in a stress scenario include market risk hedging, further longevity swaps, reinsurance, issuance of hybrid debt, deferral or reduction in shareholder dividends, sale of business lines and/or portfolios, review of future planned management actions, review of outsourcing arrangements and equity issuance.

The Group's Own Funds differ materially from IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance liabilities and intangible assets.

Following the implementation of the Solvency II regulatory regime from 1 January 2016, the Group made certain changes to the assumptions and estimates used in the IFRS valuation of insurance contracts, as follows:

- in determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group amended the risk-free reference curve from a gilt yield curve plus a liquidity premium of 10 basis points to the EIOPA swap curve plus 10 basis points;
- for non-participating insurance contract liabilities, the Group previously used a valuation rate of interest and adjusted the liability discount rate by reference to the yield on the assets backing the liabilities to account for credit, default and reinvestment risk. The Group now makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities. The new approach does not take any additional credit for investment margins compared to the previous methodology; and
- for non-participating insurance contract liabilities, the Group previously derived demographic assumptions by adding an implicit prudent margin to best estimate assumptions. The Group amended its approach in this regard and now sets assumptions at management's best estimates and recognises an explicit margin for demographic risks. For participating business in realistic basis companies, the assumptions as to future demographic trends continue to represent 'best estimates'.

The assumption changes were made to align the IFRS basis more closely with the requirements of Solvency II and move the basis closer to management's expectations of the requirements under the new IFRS with respect to insurance contracts (IFRS 17 – Insurance Contracts), which is expected to be effective for financial periods commencing 1 January 2021 and beyond. As the Group manages its capital in accordance with Solvency II, the changes outlined above mean the IFRS results more closely reflect the way the business is managed and the Group's risk hedging strategies.

The amendments to the risk free reference rate and the approach to adjusting for illiquidity increased insurance liabilities by £77 million in the year ended 31 December 2016. This was more than offset by the impact of the change in approach for determining the demographic prudence margin, which reduced insurance liabilities by £115 million. After allowing for other second order impacts of the changes (including the revaluation of certain current liabilities using the swap rather than gilt curve), the overall impact of the above changes in the year ended 31 December 2016 is a benefit to IFRS profit before tax of £31 million.

Mortality, longevity and persistency

The Group's results of operations and cashflows 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 businesses 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 who 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.

Excluding the impact of changes to align the IFRS valuation of insurance contracts with Solvency II requirements as disclosed above, the Group's IFRS insurance liabilities decreased by £92 million as a result of changes in assumptions with regard to mortality, longevity, persistency and expenses for the year ended 31 December 2017 (2016: increased by £52 million; 2015: increased by £6 million).

Acquisition of SunLife Embassy Business

On 1 November 2016, the Group completed the AXA Transaction for a total cash consideration of £373 million.

The acquisition was comprised of the SunLife Embassy Business, a pensions and investments business offering a range of propositions catering to both individual and corporate requirements, and SunLife, a leader in the over 50s protection sector. The AXA Transaction increased assets under management by £12 billion and added over 910,000 policies to the Group.

The Group has generated significant diversification benefits as a result of the AXA Transaction, with the mortality exposure of the SunLife business offsetting the Group's existing longevity exposure from its annuity liabilities. Access to transitional capital benefits arising as a result of the implementation of Solvency II was achieved by the reinsurance of the SunLife Embassy Business and SunLife into PLL in November 2016, and subsequent transfer via a formal scheme under Part VII of FSMA effective from 30 September 2017. Approval was received from the PRA in March 2017 to include the acquired businesses within the scope of the Group's Solvency II Internal Model. These factors facilitated the delivery of £282 million of cash from the acquisition within six months of completion, exceeding the £250 million target. This included £117 million of cash in the year ended 31 December 2016 and £165 million in the year ended 31 December 2017.

Transaction costs of £12 million were recognised in the year ended 31 December 2016 in connection with the acquisition of the AXA Wealth businesses. Integration and restructuring costs of £30 million were recognised in the year ended 31 December 2016, with a further £9 million of such costs recognised in the year ended 31 December 2017.

Definite life intangible balances totalling £38 million were recognised on acquisition and are being amortised over their estimated useful life.

Acquisition of Abbey Life

On 30 December 2016, the Group completed the Abbey Life Acquisition from Deutsche Holdings No. 4 Ltd., a wholly-owned subsidiary of Deutsche Bank AG, for total consideration of £933 million. The acquired Abbey Life business predominantly comprises unit-linked life and pensions policies and annuities in payment, together with two small with-profit funds. Abbey Life added 735,000 policyholders and £10 billion of assets under management to the Group. Abbey Life closed to new retail business in 2000.

The application to move Abbey Life onto the Group's Solvency II Internal Model was submitted during the fourth quarter of 2017 and approval was received from the PRA in March 2018. As with the AXA Transaction, transitional benefits have been accessed through the reinsurance of the acquired Abbey Life business into PLL, which was effective from 29 December 2017. This is expected to be replaced by a transfer via a formal scheme under Part VII of FSMA, which is expected to become effective at the end of 2018.

Following the reinsurance, the Group will look to extract further efficiencies from the annuity portfolio by extending the Matching Adjustment benefits to all qualifying annuity liabilities.

During the year ended 31 December 2017, £236 million of cash was generated from the acquired Abbey Life business (which includes a £74 million cash receipt in connection with the transfer of the Abbey Life Pension Scheme from the operating company to a holding company).

Transaction costs of £19 million incurred in connection with the acquisition of Abbey Life were recognised in the year ended 31 December 2016. Integration and restructuring costs of £12 million were recognised in the year ended 31 December 2017.

Definite life intangible assets of £180 million were recognised on acquisition and are being amortised over their estimated useful life.

Equity raise and debt refinancing

The Group has undertaken a number of refinancing actions in the period covered by this operating and financial review. These refinancing actions have been designed to reduce the level of the Group's leverage and to better align debt repayments with the emergence of surplus from the business. In 2017, refinancing actions were also undertaken to support the strengthening of the Group's capital position at the Company level. This involved the issuance of £450 million of Tier 3 bonds in two tranches in January and May 2017, and a further US$500 million Tier 2 bond issued in July 2017. The proceeds were used to repay senior bank debt and redeem senior bonds that do not count as regulatory capital in the Company's Solvency II capital calculation.

Furthermore, the Group raised both debt and equity to support acquisition activity in 2016 and, in April 2018, issued £500 million of the RT1 Notes in connection with the Acquisition. Details of relevant transactions that have impacted the results in this period are included below.

On 23 January 2015, the Group exchanged 99 per cent. of the Perpetual Reset Capital Securities issued by PGH1 for £428 million of new subordinated notes, issued by PGH Capital P.L.C. (formerly PGH Capital Limited) ("**PGH Capital**") and £3 million of cash. The new subordinated notes have a maturity date in 2025 and attract a coupon of 6.625 per cent. per annum.

On 21 March 2016, the Group agreed an amendment of its £900 million five year unsecured bank facility into a £650 million unsecured revolving credit facility, maturing in June 2020. There are no mandatory or target amortisation payments associated with the facility but prepayments are permissible.

In May 2016, the Group entered into a £220 million short-term debt facility as part of the AXA Transaction.

On 1 June 2016, the Group completed an equity placing of 22.5 million new ordinary shares in connection with the AXA Transaction. The placing raised net proceeds of £190 million, after deduction of applicable commissions and expenses.

On 31 October 2016, £182 million was drawn down from the short-term debt facility for the AXA Transaction.

On 9 November 2016, the Group issued 144.7 million new ordinary shares in connection with the Abbey Life Acquisition, where 7 rights issue shares were issued at 508 pence per share for every 12 existing Company shares held. The rights issue raised gross proceeds of £735 million and proceeds, net of deduction of commission and expenses, were £717 million.

On 9 November 2016, the £650 million unsecured revolving credit facility was fully repaid using proceeds from the rights issue, before being fully drawn down again on 28 December 2016. On the same date, the Group drew down a further £250 million tranche of this facility to finance part of the Abbey Life Acquisition, increasing borrowing on the revolving credit facility to £900 million.

On 20 December 2016, the short-term debt facility for the AXA Transaction was fully repaid.

On 29 December 2016, £50 million of the unsecured revolving credit facility was repaid.

On 20 January 2017, PGH Capital issued £300 million of Tier 3 subordinated notes due 2022, the proceeds from which were used to repay £300 million of the revolving credit facility.

On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million.

On 28 February 2017, the Company became an additional borrower under the unsecured revolving credit facility. On 20 March 2017, PGH Capital repaid its outstanding borrowings under the unsecured revolving credit facility of £550 million, whilst the Company drew down an equivalent amount.

On 20 March 2017, the Company was substituted in place of PGH Capital as issuer of a £300 million senior unsecured bond at a coupon of 5.75 per cent. per annum (the "**Senior Bonds**") (of which £122 million remain outstanding as at the date of this document), the £428 million subordinated notes and the £300 million Tier 3 subordinated notes.

On 30 March 2017, the final maturity date of the unsecured revolving credit facility under the Revolving Credit Agreement was extended to 30 June 2021, following the exercise of one of the extension options.

On 5 May 2017, the Company completed the issue of a further £150 million of Tier 3 subordinated notes (bringing the total outstanding principal to £450 million). On the same date, the Company completed the purchase of £178 million of the Senior Bonds at a premium of £25 million in excess of the principal amount.

On 6 July 2017, the Company issued US$500 million Tier 2 bonds due 2027. The proceeds from the bond issuance were used to repay £384 million of the unsecured revolving credit facility.

On 8 August 2017, the Company repaid the remaining principal outstanding on the unsecured revolving credit facility of £166 million.

On 23 February 2018, the Company entered into the Backstop Revolving Credit Agreement for the purposes of the Acquisition. Under the Backstop Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million, which bears a floating rate of interest and which was only intended to be utilised if the Revolving Credit Agreement had been cancelled. On 23 February 2018,

the Company also entered into the Acquisition Facility Agreement. Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million, which bears a floating interest rate and which is currently undrawn.

On 27 February 2018, the final maturity date of the unsecured revolving credit facility under the Revolving Credit Agreement was extended to 30 June 2022 following the exercise of the second of the two extension options.

On 26 April 2018, the Company issued the RT1 Notes, the proceeds from which are expected to be used to fund a portion of the cash consideration for the Acquisition.

On 2 May 2018, the Revolving Credit Agreement was amended to (among other matters) permit the Acquisition and provide that the unsecured revolving credit facility made available under the Revolving Credit Agreement is available on a customary certain funds basis in connection with the Acquisition. As a result of the amendments to the Revolving Credit Agreement becoming effective on 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled on 2 May 2018.

As a result of the refinancing actions and acquisitions undertaken by the Group, total shareholder borrowing has increased to £1,540 million as at 31 December 2017 from £1,275 million as at 31 December 2014.

Transfer of annuity in-payment liabilities to Guardian Assurance Limited

On 31 July 2014, PLL entered into a reinsurance agreement, effective from 1 January 2014 to reinsure certain portfolios of the Group's annuity in-payment liabilities from three with-profit funds to ReAssure Life Limited (formerly Guardian Assurance Limited) in exchange for financial assets of £1.7 billion. The transaction removed a significant element of longer dated risk from three separate with-profit funds in PLL.

On 30 December 2016, the reinsurance agreement was replaced by a formal scheme under Part VII of the Financial Services and Market Act 2000 to transfer the annuity liabilities to ReAssure Limited, a fellow subsidiary of ReAssure Life Limited. Net liabilities of £70 million were transferred for a consideration of £18 million, resulting in an IFRS gain of £52 million in the year ended 31 December 2016. As the portfolio of annuities was previously held in unsupported with-profit funds, the gain is offset by an equivalent increase in policyholder liabilities. As such there was no net impact on the Group's IFRS result for the period.

Reinsurance of annuity liabilities to RGA International

On 9 November 2015, the Group entered into an agreement with RGA International, effective from 1 November 2015, to reinsure substantively all of the PLAL annuity liabilities previously ceded to Opal Reinsurance Limited, a subsidiary undertaking of the Company. The Group paid a reinsurance premium of £1,346 million to RGA International. Under the terms of the arrangement, RGA International holds assets in a collateral account over which the group has a floating charge. A gain of £49 million (net of a £64 million impairment of associated acquired value of in-force business) was recognised in the IFRS results for the year ended 31 December 2015. A £14 million gain was recognised in the year ended 31 December 2016 reflecting a premium adjustment in connection with the agreement.

PA (GI) Limited creditor insurance

In 2015, PA (GI), a subsidiary of the Group, was subject to a Companies Court judgment that directed that PA (GI) is liable to claimants for redress relating to creditor insurance policies within a book of insurance underwritten by PA (GI) until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to the complaints.

In the year ended 31 December 2016, an expense of £33 million was recognised in respect of the costs for providing for associated claims and costs arising from this exposure. In the year ended 31 December 2017, reimbursements of £39 million have been recognised by PA (GI) in respect of recoveries due or received from third parties in connection with the Group's exposure to these complaints. This represents recoveries due from third parties under contractual arrangements. Recoveries of £7 million were received during the year ended 31 December 2017. At 31 December 2017, recoveries of a further £32 million were due to PA (GI) in respect of both past and estimated future complaint payments and liabilities.

Reduction in shareholding in UK Commercial Property Trust Limited ("UKCPT")

In March 2016, the Group reduced its holding in the issued share capital of UKCPT below 50 per cent. to 48.9 per cent. and subsequently in September 2016 to 47.87 per cent. The Group deemed that it no longer exercised control over UKCPT. The reduction in its ownership percentage below 50 per cent. coupled with the existence of a relationship agreement and a lack of representation on the Board was considered to have removed the Group's unilateral power of veto in general meetings and placed additional restrictions on the Group's ability to exercise control. Consequently, UKCPT has been deconsolidated from the effective date of this loss of control. The Group's remaining interest in UKCPT is now treated as an associate and held at fair value.

The Group's interest in UKCPT continues to be held in the with-profit funds of the Phoenix Life Companies. Therefore the shareholder exposure to fair value movements in the Group's investment in UKCPT continues to be limited to the impact of those movements on the shareholder share of distributed profits from the relevant fund. On 3 May 2018, UKCPT published a shareholder circular setting out details of its proposal to convert to a REIT structure, together with a description of the necessary amendments to its articles of association. UKCPT held its general meeting on 29 May 2018 and received shareholder approval for the REIT conversion. It intends to complete this conversion on 1 July 2018. Following UKCPT's conversion to a REIT, the Group may consider restructuring its holding in UKCPT, but this is not expected to result in any consolidation of the Group's interest in UKCPT.

There was no gain or loss recognised in the results on reduction of the holding in UKCPT.

Discontinuance of MCEV and financial leverage reporting

The Group has historically provided supplementary reporting information through the presentation of its results on an MCEV basis. MCEV was previously considered to provide a relevant means of determining the economic worth of the Phoenix Life Companies and provided a measure to assess the Group's ability to increase value through the delivery of incremental management actions.

Following the implementation of the Solvency II regulatory regime, the need for an alternative reporting metric that recognises the value of future cashflows has been removed. Accordingly, the Group reported under its MCEV basis for the last time as at 31 December 2015 and no longer reports this metric.

In addition, the Group's historically reported measure of financial leverage is no longer reported after 31 December 2015. The achievement of the Group's investment grade credit rating during 2015 and the reliance of the calculation on MCEV information means that the metric is no longer calculated.

The Group continues to focus on cash generation as its key reporting metric, and this is driven by the Solvency II Own Funds of the Phoenix Life Companies.

Recent developments, current trading and outlook

Cash generation

In 2016, the Group announced a five-year cumulative cash generation target for 2016 to 2020 of £2.0 billion. Following completion of the AXA Transaction and Abbey Life Acquisition, this long-term cash generation target was updated to £2.8 billion. £486 million of cash generation was delivered in the year ending 31 December 2016 and a further £653 million of cash in the year ended 31 December 2017, taking total cash generation to £1.1 billion against this long-term target. On 23 February 2018, the Group announced a new five-year cumulative cash generation target for 2018 to 2022 of £2.5 billion, excluding the impact of the Acquisition. The Group is on track to be at the upper end of its £1.0 to £1.2 billion two-year cash generation target for 2017 and 2018.

The resilience of the cash generation target is demonstrated by the following stress testing:

	1 January 2018 to 31 December 2022
	(£ billion)
Stress testing[1]	
Base case five-year target	2.5
Following a 20 per cent. fall in equity markets	2.5
Following a 15 per cent. fall in property values	2.5
Following a 60 basis points interest rates rise[2]	2.7
Following a 80 basis points interest rates fall[2]	2.3
Following credit spread widening[3]	2.3
Following a 6 per cent. decrease in annuitant mortality rates[4]	2.2
Following a 10 per cent. increase in assurance mortality rates	2.4
Following a 10 per cent. change in lapse rates[5]	2.4

Notes:

(1) Assumes stress occurs on 1 January 2018.

(2) Assumes recalculation of transitionals (subject to PRA approval).

(3) Credit stress equivalent to approximately 100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.

(4) Equivalent of six months' increase in longevity applied to the annuity portfolio.

(5) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

The Acquisition is expected to generate £1.0 billion of additional aggregate cash flows during the period of the Group's base case five-year target (2018 to 2022).

The resilience of the expected cash generation is demonstrated by the following stress testing on the Enlarged Group:

	1 January 2018 to 31 December 2022
	(£ billion)
Stress testing[1]	
Base case five-year expected cashflows	3.5
Following a 80 basis points interest rates fall[2]	3.3
Following credit spread widening[3]	3.3
Following a 6 per cent. decrease in annuitant mortality rates[4]	3.0
Following a 10 per cent. change in lapse rates[5]	3.3

Notes:

(1) Assumes stress occurs on 1 January 2018.

(2) Assumes recalculations of transitionals (subject to PRA approval).

(3) Credit stress equivalent to approximately 100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.

(4) For the Phoenix annuity portfolio, this is equivalent to six months' increase in longevity.

(5) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups. For the acquired businesses, assumes a 10 per cent. increase in lapse rates for funds exposed to increased lapses.

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

Capital position

As at 31 December 2017, the Group reported a Group Solvency II Surplus of £1.8 billion.

As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing are provided below and demonstrate the resilience of the Group Solvency II Surplus:

	As at 31 December 2017
	(£ billion)
Base: 31 December 2017	1.8
Following a 20 per cent. fall in equity markets	1.8
Following a 15 per cent. fall in property values	1.8
Following a 60 basis points interest rates rise(1)	1.9
Following a 80 basis points interest rates fall(1)	1.7
Following credit spread widening(2)	1.6
Following a 6 per cent. decrease in annuitant mortality rates(3)	1.5
Following a 10 per cent. increase in assurance mortality rates	1.7
Following a 10 per cent. change in lapse rates(4)	1.7

Notes:

(1) Assumes recalculation of transitionals (subject to PRA approval).

(2) Credit stress equivalent to approximately 100 basis points widening in spreads for A-rated bonds of 15-year term (other bonds stressed proportionately), based on average historical default rates.

(3) Equivalent of six months' increase in longevity applied to the annuity portfolio.

(4) Assumes most onerous impact of a 10 per cent. increase/decrease in lapse rates across different product groups.

Description of key line items

The following descriptions of key line items in the Annual Report and Accounts are relevant to the discussion of the Group's results of operations.

Gross premiums written

Although the Group, as a consolidator of closed funds, is primarily focused on the efficient management of in-force policies and currently writes limited new policies (as 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 Phoenix 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, 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 discretionary participation features are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the consolidated statement of financial position as an adjustment to the liability to the policyholder.

Premiums ceded to reinsurers

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

Fees

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

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

Investment contract income is received from investment contract policyholders and is composed of charges for administration services, investment management services, surrenders and other contract

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

Net investment income

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

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

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

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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

Policyholder claims

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

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

Reinsurance recoveries

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

Change in insurance contract liabilities

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

Transfer from unallocated surplus

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

Change in investment contract liabilities

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

Amortisation of acquired in-force business

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

Total administrative expenses

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

Net (income)/expense attributable to unitholders

In accordance with IFRS, the Group consolidates the financial results of the unit trusts and collective investment schemes deemed to be controlled by the Group. Net (income)/expense attributable to unitholders represents the share of such unit trusts' and collective investment schemes' losses/gains that belong 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 controlling stake collectively incur an investment loss, the Group will record a credit under "net expense attributable to unitholders". 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 unitholders".

Other operating expenses

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

Finance costs

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

Results of operations of the Group for the years ended 31 December 2017, 2016 and 2015

The table below sets forth the Group's combined results of operations for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Gross premiums written	1,130	999	902
Premiums ceded to reinsurers	(205)	(75)	(1,376)
Net premiums written	**925**	**924**	**(474)**
Fees	173	88	95
Net investment income	4,986	6,361	1,064
Total revenue, net of reinsurance payable	**6,084**	**7,373**	**685**
Gain on transfer of business	—	52	—
Other operating income	5	20	7
Net income	**6,089**	**7,445**	**692**
Net policyholder claims and benefits incurred	(2,531)	(5,517)	441
Change in investment contract liabilities	(2,673)	(1,194)	(232)
Total administrative expenses[(1)]	(607)	(520)	(445)
Net income attributable to unitholders	(43)	(66)	(7)
Other operating expenses[(2)]	(110)	(96)	(161)
Profit before finance costs and tax	**125**	**52**	**288**
Finance costs	(132)	(122)	(136)
(Loss)/profit for the year before tax	**(7)**	**(70)**	**152**
Tax (charge)/credit attributable to policyholders' returns	(21)	(58)	33
Tax credit attributable to owners	1	28	64
Tax (charge)/credit	(20)	(30)	97
(Loss)/profit for the year attributable to owners	**(27)**	**(100)**	**249**
Attributable to:			
Owners of the parent	(27)	(101)	201
Non-controlling interests	—	1	48
	(27)	(100)	249

Notes:

(1) Total administrative expenses comprises "Administrative expenses" and "Amortisation of other intangibles".

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

Net premiums written

The Group's net premiums written increased by £1 million, to £925 million for the year ended 31 December 2017 from £924 million for the year ended 31 December 2016. This increase reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016. This has been largely offset by the impact of increased reinsurance premiums payable on the longevity swap arrangement entered into in December 2016 with RGA International in respect of a portfolio of the Group's in-force immediate annuity liabilities, and the impact of run-off of the book of regular premium business.

The Group's net premiums written increased by £1,398 million to £924 million for the year ended 31 December 2016 from negative £474 million for the year ended 31 December 2015. The increase principally reflects the reinsurance premiums of £1.3 billion paid to RGA International in 2015 to reinsure substantively all of the PLAL annuity liabilities previously ceded to Opal Reinsurance

Limited. Completion of the AXA Transaction in November 2016 also positively impacted the Group's net written premiums in the year.

Fees

The Group's fee income increased by £85 million, or 97 per cent., to £173 million for the year ended 31 December 2017 from £88 million for the year ended 31 December 2016. This increase principally reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016.

The Group's fee income decreased by £7 million, or 7 per cent., to £88 million for the year ended 31 December 2016 from £95 million for the year ended 31 December 2015. The decrease principally reflects a reduction in annual management charge income as a result of the run-off of the book and limits on charges where products have guaranteed pricing terms.

Net investment income

The table below sets forth a breakdown of the Group's net investment income for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Investment income			
Interest income on loans and receivables at amortised cost	1	1	3
Interest income on financial assets designated at fair value through profit or loss on initial recognition	972	859	1,076
Dividend income	1,073	902	911
Rental income	23	38	90
Net interest (expense)/income on Group defined benefit pension scheme asset/liability	(11)	21	17
Investment income	**2,058**	**1,821**	**2,097**
Fair value gains/(losses)			
Financial assets at fair value through profit or loss			
Designated upon initial recognition	2,754	3,236	(1,178)
Held for trading-derivatives	165	1,278	5
Investment property	9	26	140
Fair value gains/(losses)	**2,928**	**4,540**	**(1,033)**
Net investment income	**4,986**	**6,361**	**1,064**

The Group's net investment income decreased by £1,375 million, or 22 per cent., to £4,986 million for the year ended 31 December 2017 from £6,361 million for the year ended 31 December 2016. This decrease reflects the relative stability of yields during 2017, compared to falling yields in 2016 which generated fair value gains on the Group's fixed interest securities in that period. The decrease also reflects losses on derivative positions entered into to protect the Group's capital position from the impact of falling interest rates and declining equity market performance, together with lower equity market gains in 2017 compared to 2016 experience.

The Group's net investment income increased by £5,297 million to £6,361 million for the year ended 31 December 2016 from £1,064 million for the year ended 31 December 2015. The increase reflects positive equity performance in the period, together with the impacts of narrowing credit spreads and falling yields which generated fair value gains on the Group's fixed interest securities. Conversely net investment income for the year ended 31 December 2015 was impacted by the recognition of fair value losses on fixed interest portfolios as a result of increasing yields and widening credit spreads.

Total revenue, net of reinsurance payable

As a result of the foregoing factors, the Group's total revenue, net of reinsurance payable decreased by £1,289 million, or 17 per cent., to £6,084 million for the year ended 31 December 2017 from

£7,373 million for the year ended 31 December 2016. The Group's total revenue, net of reinsurance payable increased by £6,688 million to £7,373 million for the year ended 31 December 2016 from £685 million for the year ended 31 December 2015.

Gain on transfer of business

The Group entered into a reinsurance agreement, effective 1 January 2014, to reinsure certain portfolios of the Group's annuity liabilities to Reassure Life Limited (formerly Guardian Assurance Limited) in exchange for the transfer of financial assets of £1.7 billion. The annuity in-payment liabilities were held in the Group's with-profit funds.

On 30 December 2016, the reinsurance agreement was replaced by a formal scheme under Part VII of FSMA to transfer the annuity liabilities to ReAssure Limited, fellow subsidiary of ReAssure Life Limited.

Net liabilities disposed of were £70 million and the Group recognised a gain on transfer of £52 million in its results for the year ended 31 December 2016. As the portfolio of annuities was previously held in unsupported with-profit funds, the gain was offset by an equivalent increase in policyholder liabilities and there was no net impact on the Group's result for the period.

Other operating income

The Group's other operating income decreased by £15 million, or 75 per cent., to £5 million for the year ended 31 December 2017 from £20 million for the year ended 31 December 2016. The decrease was primarily as a result of the non-recurrence of amounts recognised in 2016 relating to the true-up of annuity liability reinsurance transaction amounts.

The Group's other operating income increased by £13 million, or 186 per cent., to £20 million for the year ended 31 December 2016 from £7 million for the year ended 31 December 2015. The increase was primarily as a result of the recognition of income in 2016 relating to a true-up of amounts relating to the annuity liability reinsurance transaction entered into with RGA International in 2015.

Net income

As a result of the foregoing factors, the Group's net income decreased by £1,356 million, or 18 per cent., to £6,089 million for the year ended 31 December 2017 from £7,445 million for the year ended 31 December 2016.

The Group's net income increased by £6,753 million to £7,445 million for the year ended 31 December 2016 from £692 million for the year ended 31 December 2015.

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 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Policyholder claims	(3,897)	(3,726)	(3,931)
Reinsurance recoveries	443	456	326
Net policyholder claims	**(3,454)**	**(3,270)**	**(3,605)**
Change in insurance contract liabilities	1,392	(1,970)	2,959
Change in reinsurers' share of insurance contract liabilities	(423)	(281)	1,003
Transfer (to)/from unallocated surplus	(46)	4	84
Net change in insurance contract liabilities	**923**	**(2,247)**	**4,046**
Net policyholder claims and benefits incurred	**(2,531)**	**(5,517)**	**441**

Net policyholder claims

The Group's net policyholder claims increased by £184 million, or 6 per cent., to £3,454 million for the year ended 31 December 2017 from £3,270 million for the year ended 31 December 2016. This

increase principally reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016.

The Group's net policyholder claims decreased by £335 million, or 9 per cent., to £3,270 million for the year ended 31 December 2016 from £3,605 million for the year ended 31 December 2015. The decrease principally reflects the impact of claims experience run-off.

Net change in insurance contract liabilities

The net change in insurance contract liabilities saw a movement of £3,170 million to an income of £923 million for the year ended 31 December 2017 from an expense of £2,247 million for the year ended 31 December 2016. This movement reflects claims paid in the period and the relative stability of yields during 2017, compared to the fall in yields experienced in 2016.

The net change in insurance contract liabilities saw a movement of £6,293 million, or 156 per cent., to an expense of £2,247 million for the year ended 31 December 2016 from an income of £4,046 million for the year ended 31 December 2015. This movement reflects premiums received in the period together with the impact of economic factors, principally the fall in yields in 2016 which adversely impacted the valuation of insurance liabilities. Yields increased moderately in 2015.

Change in investment contract liabilities

The change in the Group's investment contract liabilities was an increase in the expense of £1,479 million to an expense of £2,673 million for the year ended 31 December 2017 from an expense of £1,194 million for the year ended 31 December 2016. This change was principally due to the impact of equity market gains on the larger book of investment contract business following completion of the AXA Wealth and Abbey Life acquisitions in the second half of 2016.

The change in the Group's investment contract liabilities was an increase of £962 million to an expense of £1,194 million for the year ended 31 December 2016 from an expense of £232 million for the year ended 31 December 2015. This change was principally due to the impact of investment performance on the assets underlying the Group's investment contract liabilities, with strong equity performance in 2016.

Total administrative expenses

The table below sets forth a breakdown of the Group's total administrative expenses for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Administrative expenses	(590)	(506)	(430)
Amortisation of customer relationships and other intangibles	(17)	(14)	(15)
Total administrative expenses	**(607)**	**(520)**	**(445)**

The Group's total administrative expenses increased by £87 million, or 17 per cent., to £607 million for the year ended 31 December 2017 from £520 million for the year ended 31 December 2016. This increase reflects the twelve month contribution of the acquired AXA Wealth and Abbey Life businesses following completion of those transactions in the second half of 2016 together with the £25 million premium paid on part redemption of the £300 million senior bond. These amounts have been offset by the non-recurrence of £31 million in respect of transaction costs recognised in 2016 relating to the AXA Transaction and Abbey Life Acquisition, together with the impact of a net positive movement of £18 million in the provision for claims and associated costs (net of recoveries from third parties under contractual arrangements) relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA (GI) Limited (2016: £33 million adverse).

The Group's total administrative expenses increased by £75 million, or 17 per cent., to £520 million for the year ended 31 December 2016 from £445 million for the year ended 31 December 2015. The increase reflects the recognition of an expense of £33 million in 2016 in respect of the PA (GI) Limited creditor insurance. The increase also reflects the recognition of acquisition costs of £31 million in respect of the transaction costs associated with the AXA Transaction and the Abbey Life Acquisition, together with a provision for costs of £30 million associated with the integration and

restructuring following completion of the AXA Transaction. These amounts have been partially offset by lower outsourcer costs in the period.

Net income attributable to unitholders

The Group's net income attributable to unitholders decreased by £23 million, or 35 per cent., to a net expense item of £43 million for the year ended 31 December 2017 from a net expense item of £66 million for the year ended 31 December 2016. This change was primarily due to comparatively lower equity gains in 2017 compared to 2016, and the impact of stable yields in 2017. These factors reduced the minority share of the results of consolidated collective investment schemes compared to the prior period.

The Group's net income attributable to unitholders increased by £59 million to a net expense item of £66 million for the year ended 31 December 2016 from a net expense of £7 million for the year ended 31 December 2015. This change was primarily due to the positive equity returns and falling yields experienced in 2016 which enhanced the minority share of the results of the consolidated collective investment schemes.

Other operating expenses

The table below sets forth a breakdown of the Group's other operating expenses for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Acquisition costs	(6)	(9)	(7)
Change in present value of future profits	5	(11)	(6)
Amortisation and impairment of acquired in-force business	(109)	(76)	(148)
Total other operating expenses	**(110)**	**(96)**	**(161)**

Other operating expenses, which include acquisition costs, change in present value of future profits and amortisation and impairment of acquired in-force business, increased by £14 million, or 15 per cent., to £110 million for the year ended 31 December 2017 from £96 million for the year ended 31 December 2016. This increase was primarily due to the increased amortisation charge arising on acquired in-force business recognised in respect of the acquired AXA Wealth and Abbey Life businesses, partly offset by the impact of positive equity returns and favourable expense assumption changes on the present value of future profits.

Other operating expenses decreased by £65 million, or 40 per cent., to £96 million for the year ended 31 December 2016 from £161 million for the year ended 31 December 2015. This decrease was primarily due to the recognition in the 2015 comparative period of a £64 million impairment of acquired in-force business following the reinsurance of annuity liabilities to RGA International, together with a lower 2016 amortisation charge on acquired in-force business, reflecting the run-off of the book. Partly offsetting these movements is the impact of falling yields on the change in present value of future profits which generated a loss of £11 million compared to a loss of £6 million in 2015.

Profit before finance costs and tax

As a result of the foregoing factors, the Group's profit before finance costs and tax increased by £73 million to a profit of £125 million for the year ended 31 December 2017 from a profit of £52 million for the year ended 31 December 2016. The Group's profit before finance costs and tax decreased by £236 million, or 82 per cent., to a profit of £52 million for the year ended 31 December 2016 from a profit of £288 million for the year ended 31 December 2015.

Finance cost

The Group's finance costs increased by £10 million, or 8 per cent., to £132 million for the year ended 31 December 2017 from £122 million for the year ended 31 December 2016. This increase was primarily due to the increased coupon payable on hybrid debt issuances in the year, together with the impact of the acceleration of deferred issue cost recognition on senior debt repaid during the year.

The Group's finance costs decreased by £14 million, or 10 per cent., to £122 million for the year ended 31 December 2016 from £136 million for the year ended 31 December 2015. The decrease was primarily a result of lower interest charges on the Group's Revolving Credit Agreement, reflective of a reduction in LIBOR which drives the coupon payable on the facility, together with the fact that the facility was undrawn from 9 November 2016 to 28 December 2016. Finance costs also decreased as a result of the reduction in interest charges on borrowings held by the UKCPT following its deconsolidation from the Group in February 2016.

Result for the year before tax

As a result of the foregoing factors, the Group's result for the year before tax increased by £63 million, to a loss of £7 million for the year ended 31 December 2017 from a loss of £70 million for the year ended 31 December 2016. The Group's result for the year before tax decreased by £222 million, or 146 per cent., to a loss of £70 million for the year ended 31 December 2016 from a profit of £152 million for the year ended 31 December 2015.

Tax (charge)/credit

In addition to Owners' tax, the Phoenix Life Companies pay Policyholders' tax. The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense.

The table below sets forth a breakdown of the Group's tax credit between Owners' tax and Policyholders' tax for the years ended 31 December 2017, 2016 and 2015:

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Owners' tax credit	1	28	64
Policyholder tax (charge)/credit	(21)	(58)	33
Tax (charge)/credit	**(20)**	**(30)**	**97**

For the year ended 31 December 2017, the Group received an owners' tax credit of £1 million, arising on a loss before the tax attributable to owners of £(28) million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 19.25 per cent.) of £5 million primarily due to the impact of non-taxable income of £(16) million offset by the impacts of current year tax losses not being recognised of £15 million and the valuation of current year losses at future lower tax rates of £4 million.

For the year ended 31 December 2016, the Group received an owners' tax credit of £28 million, arising on a loss before the tax attributable to owners of £128 million. The tax credit is different from the expected tax credit (based on the UK corporation tax rate of 20 per cent.) of £26 million primarily due to the impact of disallowable expenses including £7 million relating to the provision for costs recognised in respect of the creditor insurance underwritten by PA (GI) Limited and the impact of the consolidation treatment of the PGL Pension Scheme buy-in agreement of £12 million. These items have been partly offset by the benefit of a 1 per cent. reduction in future corporation tax rates and the treatment of certain recurring income and expenses as either non-taxable or taxable at rates of less than 20 per cent.

For the year ended 31 December 2015, the Group received an owners' tax credit of £64 million, arising on a profit before the tax attributable to owners of £185 million. The difference between the actual tax credit of £64 million and the expected charge (based on the UK corporation tax rate of 20.25 per cent.) of £37 million is primarily driven by factors including a prior year tax credit (reflecting the utilisation of unprovided tax losses brought forward and the release of provisions following the settlement of previously uncertain tax positions with HMRC), the impact of enacted future corporate tax rate reductions on the Group's deferred tax position, and the impact of profit items that are either non-taxable or taxed at rates other than 20.25 per cent. (including the gain arising on the Opal Reinsurance Limited reassurance recapture transaction and tax payable by the consolidated UKCPT).

(Loss)/profit for the year attributable to owners

As a result of the foregoing factors, the Group's result for the year attributable to owners decreased by £73 million, or 73 per cent., to a loss of £27 million for the year ended 31 December 2017 from a loss of £100 million for the year ended 31 December 2016.

The Group's profit for the year attributable to owners decreased by £349 million, or 140 per cent., to a loss of £100 million for the year ended 31 December 2016 from a profit of £249 million for the year ended 31 December 2015.

Non-controlling interests

Throughout 2015, as the Group's policyholder long-term funds held over 50 per cent. of the issued share capital of UKCPT, the Group was deemed to control the investment. In accordance with IFRS, 100 per cent. of the UKCPT profits and losses were consolidated with the Group's financial results for this period. In February 2016, the Group's shareholding fell below 50 per cent. and the Group was no longer deemed to exercise control over UKCPT. Accordingly, its results have not been consolidated since that date, and the Group's remaining investment in UKCPT is treated as an associate and recognised at its fair value. The profit of £1 million and £48 million for the years ended 31 December 2016 and 2015, respectively, represent the share of the profits of the trust that are attributable to the external investors who hold the remaining shareholdings in the trust.

The £2 million profit attributable to the Perpetual Reset Capital Securities (the "**Notes**") in 2015 relates to the interest coupon on the Notes. Such Notes receive coupon interest only and do not otherwise share in the profits of the Group. The Group exchanged 99 per cent. of the Notes on 23 January 2015 for £428 million of new subordinated notes issued by PGH Capital and £3 million of cash. The remaining £6 million of notes were redeemed at par on 25 April 2016.

Operating profit for the Group for the years ended 31 December 2017, 2016 and 2015

The Company has chosen to report a non-GAAP measure of performance, being operating profit. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Company's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- amortisation and impairments of intangible assets;
- finance costs attributable to owners;
- gains or losses on the disposal of subsidiaries, associates or joint ventures (net of related costs of disposal);
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Company's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the operating profit metric provides useful information for assessing the underlying performance of the Group's operating companies on an ongoing basis. This is considered particularly important given the Group's acquisitive strategy of

closed life fund consolidation. The IFRS results are significantly impacted by the amortisation of intangible balances arising on acquisition, the one-off costs of integration activities and the costs of servicing debt used to finance acquisition activity, which are not indicative of the underlying operational performance of the Group's segments.

Furthermore, the hedging strategy of the Group is calibrated to protect the regulatory capital position and cash generation capability of the operating companies, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric.

The Company therefore considers that operating profit provides a more representative indicator of the ability of the Group's operating companies to generate cash available for the servicing of the Group's debts and for distribution to Shareholders. Accordingly, the measure is more closely aligned with the business model of the Group and how performance is managed by those charged with governance.

For a reconciliation of operating profit to IFRS profit for the year attributable to owners, see "*Reconciliation of the Group's operating profit for the years ended 31 December 2017, 2016 and 2015*" of this Part VIII ("*Operating and Financial Review of the Group*").

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 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Phoenix Life	388	357	336
Group costs	(20)	(6)	(12)
Total operating profit before adjusting items	**368**	**351**	**324**

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 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
With-profit	84	81	92
With-profit where internal capital support provided	(108)	(72)	84
Non-profit and unit-linked	386	283	124
One-off impact of IFRS methodology change	—	31	—
Longer term return on owners' funds	5	7	6
Management services	21	27	30
Phoenix Life operating profit	**388**	**357**	**336**

With-profit

The with-profit operating profit represents shareholders' one-ninth share of policyholder with-profit bonuses. The with-profit operating profit increased by £3 million, or 4 per cent., to £84 million for the year ended 31 December 2017 from £81 million for the year ended 31 December 2016, and represents the shareholders' one-ninth share of the policyholder bonuses.

The with-profit operating profit decreased by £11 million, or 12 per cent., to £81 million for the year ended 31 December 2016 from £92 million for the year ended 31 December 2015, primarily due to lower bonus rates.

With-profit where internal capital support provided

The operating profit on with-profit funds where internal capital support has been provided decreased by £36 million to a loss of £108 million for the year ended 31 December 2017 from a loss of £72 million for the year ended 31 December 2016. This decrease is principally driven by the greater adverse impact of the strengthening of actuarial assumptions to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees and the associated assumptions in relation to policyholders retiring later.

The operating profit on with-profit funds where internal capital support has been provided decreased by £156 million, or 186 per cent., to a loss of £72 million for the year ended 31 December 2016 from a profit of £84 million for the year ended 31 December 2015. The decrease is principally driven by the strengthening of actuarial assumptions in the period to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees. The 2015 comparative also included the positive impact of modelling enhancements undertaken in the period of £49 million, including the implementation of the Group's new actuarial modelling system by the National Provident Life Limited ("**NPLL**") with-profit fund.

Non-profit and unit-linked

The operating profit on non-profit and unit-linked funds increased by £103 million, or 36 per cent., to £386 million for the year ended 31 December 2017 from £283 million for the year ended 31 December 2016. This increase principally reflects the impact of updating actuarial assumptions which had a net positive impact of £166 million on the result for the period (2016: £85 million). This includes the positive impact of updating longevity base and improvement assumptions to reflect experience analyses and the most recent Continuous Mortality Investigation 2016 core projection tables. The non-profit and unit-linked operating profit also benefitted from updates made to expense assumptions from operational synergies and the inclusion of the expected return of the acquired AXA Wealth and Abbey Life businesses.

The operating profit on non-profit and unit-linked funds increased by £159 million, or 128 per cent., to £283 million for the year ended 31 December 2016 from £124 million for the year ended 31 December 2015. The increase compared with the prior period principally reflects the outcomes of management actions of £117 million undertaken during the period, and positive experience which has more than offset the adverse one-off impacts of certain actuarial modelling enhancements undertaken in the period.

One-off impact of IFRS methodology change

Following the implementation of Solvency II, certain changes were made during the year ended 31 December 2016 to the assumptions and estimates used in the valuation of insurance contract liabilities to more closely align the IFRS reserving methodology with Solvency II requirements. As the Group manages its capital on a Solvency II basis, the changes mean that the IFRS results now more closely reflect the way the business is managed and the Group's risk hedging strategies. The implementation of the changes at 1 January 2016 resulted in an overall favourable impact of £31 million to Phoenix Life operating profit for the year ended 31 December 2016.

Longer term return on owners' funds

The longer term return on owners' funds decreased by £2 million, or 29 per cent., to £5 million for the year ended 31 December 2017 from £7 million for the year ended 31 December 2016. This change reflects the impact of lower opening risk-free yields used in the determination of the longer-term investment return assumptions.

The longer term return on owners' funds increased by £1 million, or 17 per cent., to £7 million for the year ended 31 December 2016 from £6 million for the year ended 31 December 2015. The change

reflects the impact of higher opening risk-free yields used in the determination of the longer-term investment return assumptions.

Management services

The operating profit for management services decreased by £6 million to £21 million for the year ended 31 December 2017 from £27 million for the year ended 31 December 2016. This change reflects the impact of life company run-off.

The operating profit for management services decreased by £3 million, or 10 per cent., to £27 million for the year ended 31 December 2016 from £30 million for the year ended 31 December 2015. The decrease compared to the prior year reflects the impact of life company run-off and increased non-recoverable project costs during the period.

Group costs

Group costs include head office expenses as well as the net interest income/(expense) on the Group's defined benefit pension schemes.

Group costs increased by £14 million to £20 million for the year ended 31 December 2017 from £6 million for the year ended 31 December 2016. This increase primarily reflects a lower return on the scheme surplus of the PGL Pension Scheme following the buy-in transaction entered into with PLL in the second half of 2016, the recognition of the net interest cost on the Abbey Life Pension Scheme and the impact of higher project recharges from the service companies.

Group costs decreased by £6 million, or 50 per cent., to £6 million for the year ended 31 December 2016 from £12 million for the year ended 31 December 2015. The decrease in Group costs compared to the prior year relates primarily reflects an increased return on the higher opening pension scheme surplus for both the PGL Pension Scheme and the Pearl Scheme.

Reconciliation of the Group's operating profit for the years ended 31 December 2017, 2016 and 2015

The following table reconciles the Group's operating profit before tax to IFRS profit after tax for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Total operating profit before adjusting items	368	351	324
Investment return variances and economic assumption changes on long-term business	(6)	(207)	13
Variance on owners' funds	(87)	(5)	(12)
Amortisation of acquired in-force and other intangibles	(119)	(82)	(90)
Other non-operating items	(80)	(95)	49
Profit/(loss) before finance costs attributable to owners	**76**	**(38)**	**284**
Finance costs attributable to owners	(104)	(90)	(99)
(Loss)/profit before the tax attributable to owners	**(28)**	**(128)**	**185**
Tax credit attributable to owners from continuing operations	1	28	64
Profit for the year attributable to owners	**(27)**	**(100)**	**249**

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

Investment return variances and economic assumption changes on long-term business were negative £6 million for the year ended 31 December 2017. The loss primarily arises on hedging positions held by the life funds following equity market gains during the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Losses on these hedging positions have been partly offset by the positive impact of strategic asset allocation activities, including investment in higher yielding assets.

Investment return variances and economic assumption changes on long-term business were negative £207 million for the year ended 31 December 2016. The loss was primarily driven by adverse market movements during the year, most notably the adverse impact of falling yields on the life funds which has increased the margin held within insurance liabilities in respect of longevity risk. The investment return variances have also been adversely impacted by losses arising on equity hedging positions held by the life funds following equity market gains in the period.

Investment return variances and economic assumption changes on long-term business were £13 million for the year ended 31 December 2015. The variances include the minority share of the result of the consolidated UKCPT property investment structure of £46 million and a £19 million gain on the purchase of a portfolio of equity release mortgages arising from the yield uplift on assets available to back annuity liabilities. Increases in yields during the period have also had a positive impact reflecting short asset positions that were held relative to the longer-term IFRS basis liabilities prior to the re-hedging activities that took place towards the end of 2015. These positive items were partly offset by the adverse impacts of changes in asset portfolios undertaken in preparation for the implementation of the new Solvency II regime, together with the impact of widening credit spreads during the period.

Variance on owners' funds

Variance on owners' funds decreased by £82 million to negative variance on owners' funds of £87 million for the year ended 31 December 2017 as compared to negative variance on owners' funds of £5 million for the year ended 31 December 2016. The negative variance is driven by interest rate swaption positions held in the life companies' shareholder funds. Such positions are held to hedge the impact of interest rate risk on the Group's regulatory capital position. With swap yields remaining relatively stable during the period, option value associated with these contracts fell in the period due to expected option expiry and reduced volatility.

Variance on owners' funds increased by £7 million, or 58 per cent., to negative variance on owners' funds of £5 million for the year ended 31 December 2016 as compared to negative variance on owners' funds of £12 million for the year ended 31 December 2015. The negative variance is driven by losses from equity hedging positions held in the Group Holding Companies, offset by gains from interest rate hedging positions held in the Phoenix Life Companies' shareholders' funds arising from falling yields.

Amortisation of acquired in-force business and other intangibles

The amortisation of acquired in-force business and other intangibles increased by £37 million, or 45 per cent., to £119 million for the year ended 31 December 2017 from £82 million for the year ended 31 December 2016 reflecting the increased amortisation charge on acquired in-force and intangible balances recognised on the acquisitions of the AXA Wealth and Abbey life businesses.

The amortisation of acquired in-force business and other intangibles decreased by £8 million, or 9 per cent., to £82 million for the year ended 31 December 2016 from £90 million for the year ended 31 December 2015 in line with the run-off of the acquired businesses.

Other non-operating items

The other non-operating items expense decreased by £15 million to £80 million for the year ended 31 December 2017 compared to negative £95 million for the year ended 31 December 2016. The non-operating items include the premium paid on the redemption of £178 million principal of the senior unsecured bond, costs of £21 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses, costs of £20 million in respect of the short-term expense overruns arising from the AXA Wealth business prior to the completion of the implementation of the Phoenix operating model, a provision of £27 million in respect of a commitment to the reduction of ongoing charges for workplace pension products, a £21 million increase in the provision for costs for claims relating to the historic creditor insurance underwritten by PA (GI) Limited, offset by the recognition of reimbursements of £39 million in respect of recoveries due or received from third parties under contractual arrangements, and net other one-off items totaling a cost of £5 million, including corporate project costs.

Other non-operating items decreased by £144 million to negative £95 million for the year ended 31 December 2016 compared to £49 million positive for the year ended 31 December 2015. The non-operating items include a £26 million gain on the implementation of a longevity swap reassurance contract on a portfolio of the Group's annuities and a £14 million gain as a result of a premium

adjustment of the 2015 reassurance arrangement with RGA International following completion of a data review.

These items were more than offset by:

- acquisition costs of £31 million, comprising £12 million of transaction costs related to the AXA Transaction and £19 million of transaction costs related to the Abbey Life Acquisition;
- a provision for costs of £30 million associated with the integration and restructuring following completion of the AXA Transaction;
- the costs of providing for claims and associated costs relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA (GI) Limited, of £33 million;
- recognition of costs of £10 million associated with the introduction of regulations that cap early exit charges for pension customers aged over 55 at 1 per cent., which came into force from 2017;
- costs of £6 million associated with the transfer of non-profit annuities from with-profit funds to non-profit matching adjustment funds;
- the costs of £4 million associated with the PGL Pension Scheme buy-in;
- other corporate project costs of £19 million; and
- net other one-off items totalling a cost of £2 million.

Finance costs attributable to owners

The Group's finance costs attributable to owners increased by £14 million, or 16 per cent., to £104 million for the year ended 31 December 2017 from £90 million for the year ended 31 December 2016. The increase was primarily as a result of the higher coupon payable on hybrid debt issuances in the year, together with the impacts of the acceleration of deferred issue cost recognition on senior debt repaid during the year.

The Group's finance costs attributable to owners decreased by £9 million, or 9 per cent., to £90 million for the year ended 31 December 2016 from £99 million for the year ended 31 December 2015. The decrease was primarily a result of lower interest charges on the Group's Revolving Credit Agreement, reflective of a reduction in LIBOR which drives the coupon payable on that facility, together with the fact that the facility was undrawn from 9 November 2016 to 28 December 2016.

Tax attributable to owners

Tax attributable to owners is discussed under the section headed "*Results of operations for the Group for the years ended 31 December 2017, 2016 and 2015*" above.

Liquidity and capital resources

The Company and the Holding Companies

The principal cash requirements of the Company, PLHL, PGH2, Impala, Pearl Assurance Group Holdings Limited, PGH1, PGH (LCA) Limited, PGH (LCB) Limited and PeLHL (together, the "**Holding Companies**") are the payment of dividends to Shareholders, the servicing of debt, contributions to the pension schemes and the payment of expenses. The principal sources of cash for the Holding Companies are loans and dividends from operating subsidiaries.

The Phoenix Life Companies

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

The Phoenix 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 Phoenix Life Companies may distribute to the Holding Companies depends on the individual solvency position of each of the Phoenix Life Companies. Cash may be distributed only to the extent that (i) the individual solvency positions of the Phoenix Life Company is positive and (ii) there is excess capital over and above an additional solvency buffer determined by the respective Phoenix Life Company board, subject to any regulatory limitations imposed.

Cashflows for the years ended 31 December 2017, 2016 and 2015

The table below sets out the Holding Companies' cashflows for the years ended 31 December 2017, 2016 and 2015:

	Year ended 31 December		
	2017	2016	2015
	(£ million) (unaudited)		
Cash and cash equivalents at 1 January	**570**	**706**	**988**
Operating companies' cash generation:			
Cash receipts from Phoenix Life	653	486	225
Total receipts[(1)]	**653**	**486**	**225**
Uses of cash:			
Operating expenses	(36)	(33)	(26)
Pension scheme contributions	(92)	(55)	(55)
Debt interest	(60)	(58)	(91)
Total recurring outflows	**(188)**	**(146)**	**(172)**
Non-recurring outflows	(84)	(141)	(25)
Uses of cash before debt repayments and shareholder dividend	**(272)**	**(287)**	**(197)**
Debt repayments	(1,053)	(239)	(190)
Shareholder dividend	(193)	(126)	(120)
Total uses of cash	**(1,518)**	**(652)**	**(507)**
Equity issuance (net of fees)	—	908	—
Debt issuance (net of fees)	830	428	—
Cost of acquisitions	—	(1,306)	—
Cash and cash equivalents at 31 December[(2)]	**535**	**570**	**706**

Notes:

(1) Includes amounts received by the Holding Companies in respect of tax losses surrendered to the operating companies of £20 million (2016: £84 million; 2015: £71 million).

(2) Closing balance at 31 December 2015 includes required prudential cash buffer of £150 million. Since the acquisition of the original Pearl business by the Company, the Financial Services Authority (the Group's previous prudential regulator) required that £100 million of liquid assets be held at the level of Impala Holdings Limited and that £50 million of liquid assets be held at the level of PLHL in order to provide support to the Group's life and regulated service companies. These requirements expired on 31 December 2016 and therefore no prudential cash buffer was required to be held from that date.

Total receipts of cash by Holding Companies

Total receipts of cash by Holding Companies were £653 million for the year ended 31 December 2017, which included £165 million generated from the acquired AXA Wealth business and £236 million generated from the acquired Abbey Life business (which includes a £74 million cash receipt in connection with the transfer of the Abbey Life Pension Scheme from the operating company to a Holding Company). Of the £653 million, management actions accounted for £380 million.

Total receipts of cash by Holding Companies were £486 million for the year ended 31 December 2016, which included £117 million generated following completion of the AXA Transaction. Of the £486 million, management actions accounted for £265 million.

Total receipts of cash by Holding Companies were £225 million for the year ended 31 December 2015, including the £20 million impact of management actions implemented in the period. A reduction from the prior period reflected the retention of capital in the Phoenix Life Companies in advance of the transition to the Solvency II regulatory capital regime.

Uses of cash

Total recurring outflows

Total recurring outflows for the year ended 31 December 2017 increased by £42 million, or 29 per cent., to £188 million from £146 million for the year ended 31 December 2016. The operating expenses of £36 million for the year ended 31 December 2017 (2016: £33 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Total recurring outflows for the year ended 31 December 2016 decreased by £26 million, or 15 per cent., to £146 million from £172 million for the year ended 31 December 2015. The operating expenses of £33 million for the year ended 31 December 2016 (2015: £26 million) increased compared to the prior year as a result of lower interest earned on bank balances with excess cash balances being used to repay debt.

Pension scheme contributions of £92 million (2016: £55 million; 2015: £55 million) are in line with the latest triennial funding agreements agreed for each of the schemes. The increase in 2017 reflects the inclusion of £32 million of contribution payments to the Abbey Life Pension Scheme for the first time in 2017 and revised timings of contribution payments to the Pearl Scheme. Contributions are now made to the Pearl Scheme on a monthly basis, whereas previously an annual payment was made each September. There is no change to the overall quantum of agreed funding. The 2017 figure includes £10 million settled in respect of the last quarter of 2016, together with the £40 million annual payment in respect of 2017 settled monthly. £10 million of contributions to the PGL Pension Scheme were also made in 2017 with no further contributions required under the existing funding agreement with the Scheme Trustees.

Debt interest increased by £2 million, or 3 per cent., to £60 million for the year ended 31 December 2017 (2016: £58 million) reflecting the higher coupon payable on hybrid debt issued in the year which has offset the impact of lower debt principal balances following repayments.

Debt interest decreased by £33 million, or 36 per cent., to £58 million for the year ended 31 December 2016 (2015: £91 million) reflecting lower principal balances following repayments made in 2015. The 2015 debt interest included payment of the £20 million coupon on the Tier 1 bonds prior to their exchange for the Subordinated Notes.

Non-recurring outflows

Non-recurring cash outflows of £84 million for the year ended 31 December 2017 (2016: £141 million) include Group costs associated with integration activity and corporate related projects, together with the payment of collateral on hedging transactions, partly offset by the receipt of proceeds from the disposal of internal holdings of the £428 million subordinated loan notes.

Non-recurring cash outflows of £141 million for the year ended 31 December 2016 (2015: £25 million) are significantly higher compared to the prior period reflecting costs associated with hedging and acquisition activity undertaken during 2016. Outflows also include £68 million of capital support provided to a subsidiary of the Group, PA (GI) Limited, with regard to the cost of providing for potential claims and associated capital requirements relating to creditor insurance underwritten prior to 2006.

Non-recurring outflows of £25 million for the year ended 31 December 2015 reflect Group restructuring and corporate related projects.

Debt repayments

Total debt repayments of £1,053 million in the year ended 31 December 2017 comprise full settlement of the £850 million revolving credit facility balance outstanding at 31 December 2016 and repayment of £178 million of the £300 million senior bonds which were redeemed at a premium of £25 million. Total debt repayments of £239 million in the year ended 31 December 2016 were made in respect of the repayment of the £182 million bank debt used to finance the AXA Transaction, together with £50 million of the Group's revolving credit facility. The remaining £6 million of outstanding Tier 1 bonds were also redeemed in March 2016.

Total debt repayments of £190 million in the year ended 31 December 2015 were made in respect of the revolving credit facility, including prepayments of £70 million in respect of payments due in 2016 and £30 million in respect of payments due in 2017.

Regulatory capital requirements

Group Solvency II Surplus

Calculation of the Group Solvency II Surplus involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk based assessment using an internal model of the Group's solvency regulatory capital requirements ("**SCR**"). For further information, see the section headed *"Solvency II"* in Part VI ("*Regulatory Overview*") of this document.

The Group's Own Funds differ materially from IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably with regard to insurance liabilities and intangible assets.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5 per cent. over one year. This ensures that capital is sufficient to withstand a broadly '1 in 200 year event' and is calculated in accordance with the Group's Solvency II Internal Model. Management actions which could be undertaken to restore the Own Funds level above SCR in a stress scenario include market risk hedging, further longevity swaps, reinsurance, issuance of hybrid debt, deferral or reduction in shareholder dividends, sale of business lines and/or portfolios, review of future planned management actions, review of outsourcing arrangements and equity issuance.

The Group Solvency II Surplus position for the Company as at 31 December 2017 (estimated) and as at 31 December 2016 (pro forma) is set out below:

	As at 31 December	
	2017[4]	**2016[4][5]**
	(£ billion)	
Own Funds[1]	6.6	6.0
Solvency regulatory capital requirement[2]	4.8	4.9
Solvency II Surplus (estimated)[3]	**1.8**	**1.1**

Notes:

(1) Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferrable and fungible between Group companies within a period of nine months.

(2) Solvency regulatory capital requirements relate to the risks and obligations to which the Group is exposed.

(3) Equates to a regulatory coverage ratio of 138 per cent. as at 31 December 2017 (2016: 122 per cent. pro forma) and a Shareholder Capital Coverage Ratio of 164 per cent. as at 31 December 2017 (2016: 139 per cent. pro forma).

(4) The estimated Solvency II positions as at 31 December 2016 included the adverse impact of an assumed recalculation of transitional measures on technical provisions. A mandatory recalculation of transitional measures on technical provisions was required as at 31 December 2017 and is reflected in the Group Solvency II Surplus position as at that date.

(5) The position as at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA business within the Group's Solvency II Internal Model. Had these adjustments not been made, the estimated surplus as at 31 December 2016 would be £0.4 billion lower.

These figures exclude surpluses arising in the Group's with-profit funds and Group pension schemes of £0.6 billion and £0.4 billion as at 31 December 2017 and 31 December 2016, respectively. In the calculation of the Group Solvency II Surplus, the SCR of the with-profit funds and Group pension schemes is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and Group pension schemes, whilst not included in the Group Solvency II Surplus, are available to absorb economic shocks. This means that the headline surplus is highly resilient to economic stresses.

The estimated Group Solvency II Surplus increased to £1.8 billion as at 31 December 2017 (31 December 2016: £1.1 billion on a pro forma basis).

The increase includes surplus generation and expected run-off of capital requirements of £0.2 billion over the period. Management actions undertaken, including reductions in expenses from operating synergies and the impact of strategic asset allocation activities, increased the surplus by £0.4 billion. Total management actions in 2017 were £553 million, including the impact of the receipt of the

PRA's approval to include the acquired AXA business within the Group's Solvency II Internal Model, which is reflected in the 31 December 2016 (pro forma) position.

The issuance of £150 million of Tier 3 bonds in May 2017 and US$500 million of Tier 2 bonds in July 2017 has increased the Solvency II Surplus by a total of £0.5 billion compared to the pro forma position as at 31 December 2016. Assumption, experience and modelling changes were net neutral on a Solvency II basis, with the net impact of changes to longevity assumptions being offset by the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees.

Economic and other variances decreased the surplus by £0.1 billion and include the premium paid on partial redemption of the Group's £300 million senior bonds, the impact of the agreement to reduce annual charges on Workplace Pension Products to 1 per cent. or lower and acquisition integration costs.

Financing costs, pension contributions and dividend payments (including accrual for the 2017 final dividend) reduced the surplus by £0.3 billion.

The Group focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme.

Unsupported with-profit funds and the PGL Pension Scheme consist of £2.6 billion of Own Funds and £2.0 billion of SCR. Of the £2.6 billion of Own Funds, £2.0 billion consists of estate within the unsupported with-profit funds and £0.6 billion of Own Funds within the PGL Pension Scheme. As described above, the surplus of £0.6 billion in unsupported with-profit funds and the PGL Pension Scheme does not contribute to the Group Solvency II Surplus and the value of their Own Funds is restricted to the value of the related SCR.

Excluding the SCR and Own Funds of £2.0 billion relating to the unsupported with-profit funds and the PGL Pension Scheme, the Solvency II Shareholder Capital Coverage ratio was 164 per cent. as at 31 December 2017 (2016: 139 per cent. on a pro forma basis).

PLHL Group Solvency II Surplus

As detailed in the section headed "*Key factors affecting results of operations and comparability—Implementation of Solvency II*" above, prior to 30 June 2017, the Group focused on the Solvency II capital adequacy assessment undertaken at the level of the highest EEA insurance group holding company, which was PLHL.

The PLHL Solvency II Surplus position as at 31 December 2016 and as at 31 December 2015 is set out below:

	As at 31 December	
	2016(4)(5)	**2015**
	(£ billion)	
Own Funds(1)	6.8	5.7
Solvency regulatory capital requirement(2)	4.9	4.4
Solvency II Surplus (estimated)(3)	**1.9**	**1.3**

Notes:

(1) Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferrable and fungible between Group companies within a period of nine months.

(2) Solvency regulatory capital requirements relate to the risks and obligations to which the Group is exposed, calculated using an internal model, offset by Group diversification benefits.

(3) Equates to a regulatory coverage ratio of 140 per cent. on a pro forma basis (2015: 130 per cent.) and a Shareholder Capital Coverage Ratio of 170 per cent. on a pro forma basis (2015: 154 per cent.).

(4) The Solvency II positions at 31 December 2016 include the adverse impact of an assumed recalculation of transitional measures on technical provisions.

(5) The position at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA

business within the Group's Solvency II Internal Model. Had these adjustments not been made, the surplus at 31 December 2016 would be £0.1 billion lower.

Phoenix Life free surplus

Phoenix Life free surplus represents the Solvency II Surplus of the Phoenix Life Companies that is in excess of their Board-approved capital management policies.

	Year ended 31 December	
	2017	**2016**
	(£ billion)	
Opening free surplus	0.7	0.1
Surplus generation and expected run-off of regulatory capital requirements	0.2	0.2
Management actions	0.5	0.6
Impact of acquisitions	—	0.3
Assumptions, experience and modelling changes	(0.1)	(0.1)
Impact of economic and other variances	—	(0.2)
Free surplus before cash remittances	1.3	0.9
Cash remittances to holding companies	(0.6)	(0.4)
Impact of incorporating the AXA business in the Group's Internal Model	—	0.2
Closing free surplus (estimated)	0.7	0.7

Regulatory capital metrics prior to 1 January 2016

The historic group capital measures described below ceased to be regulatory measures with effect from 1 January 2016 and are only provided in order to give context to the Group's last reported regulatory capital position prior to its entry into the Solvency II regime.

Until 1 January 2016, each UK life company was required to retain sufficient capital at all times to meet the more onerous of the EU-directive-based "**Pillar 1**" and "**Pillar 2**" risk-based capital requirements stipulated by the PRA. PRA regulated insurance groups (including their insurance holding companies) were also required to provide capital adequacy calculations on a group-wide basis, 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 further information regarding the UK regulatory capital framework, see Part VI ("*Regulatory Overview*") of this document.

Pillar 1

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

Pillar 2

The private Pillar 2 capital calculation was based on a self-assessment methodology called the ICA. This methodology determined the capital requirement to ensure that each Phoenix Life Company's realistic liabilities could 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 '1 in 200 year event'. The PRA reviewed each Phoenix Life Company's ICA and was able to impose additional regulatory capital requirements if necessary in the form of Individual Capital Guidance.

Group requirements

IGD Surplus

The Group's IGD assessment was historically made at the level of the highest EEA insurance group holding company, which, until 31 January 2018, was PLHL.

The Group's historic regulatory capital policy, agreed with the PRA, was to maintain group capital resources calculated at the PLHL level (i.e., including PLHL and its subsidiaries) at an amount in excess of:

- 105 per cent. of the With-Profits Insurance Capital Component ("**WPICC**"), being an additional regulatory capital requirement of with-profit funds; plus
- 145 per cent. of the group capital resource requirement less the WPICC.

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

For further information, see the Group's Annual Report and Accounts for the year ended 31 December 2015, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

Individual Capital Assessment

The Group also historically undertook an ICA at the level of the highest EEA level insurance group holding company, which, until 31 January 2018, was PLHL. This involved an assessment, on a Pillar 2 basis, of the capital resources and requirements arising from the obligations and risks which existed outside the Phoenix Life Companies. As agreed with the PRA, the Group aimed to ensure that PLHL maintained capital resources in excess of its pension scheme and other capital requirements as assessed under Pillar 2, which was known as the Group's PLHL ICA surplus. The Group has historically restricted discretionary payments out of PLHL to the extent required to maintain an ICA surplus of at least £150 million.

For further information, see the Group's Annual Report and Accounts for the year ended 31 December 2015, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

Group MCEV

Following implementation of the Solvency II regulatory regime, as of 1 January 2016, the Group discontinued reporting on an MCEV basis. As a result, the Group last published results on an MCEV basis for the year ended 31 December 2015.

For further information, see the Group's Annual Report and Accounts for the year ended 31 December 2015, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

Financial leverage

The Group historically calculated its financial leverage as gross shareholder debt as a percentage of the gross MCEV. Gross shareholder debt was defined as the notional face value of the shareholder and hybrid debt. 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. As previously discussed, following the implementation of the Solvency II regime, MCEV is no longer being reported. This, together with the Group's achievement of an investment grade credit rating during 2015, meant that the financial leverage calculation is also no longer reported.

Off-balance sheet arrangements

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

Contingent liabilities

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration. As at 31 December 2017, the Group has a number of contingent liabilities in this regard, none of which is considered by the Directors to be material with the exception of the item set out below.

During 2016, the FCA published two thematic reviews into the fair treatment of long-standing customers and into the practices of non-advised annuity sales. Following the acquisition of Abbey Life, a provision has been recognised in respect of obligations identified as a result of past practices adopted by the entity in the areas covered by the two reviews. As part of this exercise, other potential exposures were identified where it is not yet possible to conclude that the Group has a

present obligation that will require an outflow of economic benefits. The determination of any liability arising remains dependent on the occurrence of uncertain future events, including finalisation of the FCA's enforcement investigation into Abbey Life that commenced in response to the findings of the review into the fair treatment of long standing customers.

Description of certain other indebtedness

Overview

The Group intends to manage leverage at a level consistent with maintaining an investment grade rating for the Company and the Group's senior and subordinated debt. The total principal amount outstanding under the 2027 Notes, 2022 Notes, Senior Bonds, Subordinated Bonds, PLL Tier 2 Bonds (as defined below) and credit facilities as at 31 December 2017 was £1,585 million of which £835 million was issued during 2017 (with the principal of the 2027 Notes included at the swapped rate of £385 million). On 26 April 2018, the Group issued the RT1 Notes. As a result of the amendments to the Revolving Credit Agreement becoming effective on 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled on 2 May 2018.

Under the terms of the Share Purchase Agreement, SLAL will be transferred to the Company free of any outstanding indebtedness in the form of bonds, loans or other financing liabilities, save that SLAL is expected to remain the guarantor under two series of bonds issued by Standard Life Aberdeen. For further information, see the section headed "*Description of certain other indebtedness*" in Part X ("*Operating and Financial Review of Standard Life Assurance*") and paragraph 12.2 ("*Material Contracts—Standard Life Assurance*") of Part XV ("*Additional Information*") of this document.

A description of the Group's own indebtedness as at the date of this document is set out below.

Senior Bonds

On 7 July 2014, PGH Capital issued the Senior Bonds, being a £300 million senior unsecured bond with an annual coupon of 5.75 per cent., which was guaranteed by the Company on a senior basis. On 20 March 2017, the Company was substituted in place of PGH Capital as issuer of the Senior Bonds. The Senior Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company. Unless previously redeemed or purchased and cancelled, the Senior Bonds will mature on 7 July 2021. The Senior Bonds are listed on the LSE. In 2017, the Group repurchased £178,390,000 of the principal of the Senior Bonds. As at 31 December 2017, the outstanding principal amount under the Senior Bonds was £121,610,000.

2022 Notes

On 20 January 2017, PGH Capital issued £300,000,000 4.125 per cent. Tier 3 subordinated notes due 2022 (the "**2022 Notes**"). On 20 March 2017, the Company was substituted in place of PGH Capital as issuer of the 2022 Notes. On 5 May 2017, the Company completed the issue of a further £150 million of the 2022 Notes (bringing the total outstanding principal amount to £450 million). The 2022 Notes constitute direct, unsecured and subordinated obligations of the Company. On a winding-up of the Company or in the event that an administrator of the Company is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2022 Notes will rank junior in priority to the claims of all senior creditors of the Company, but senior to the Subordinated Bonds, the 2027 Notes and the RT1 Notes. Unless previously redeemed or purchased and cancelled, the 2022 Notes are scheduled to mature on 20 July 2022, subject to and in accordance with their terms. The 2022 Notes are listed on the LSE.

Subordinated Bonds

On 23 January 2015, PGH Capital issued £428,113,000 6.625 per cent. Guaranteed Subordinated Bonds due 2025 guaranteed on a subordinated basis by the Company (the "**Subordinated Bonds**"). On 20 March 2017, the Company was substituted in place of PGH Capital as issuer. The Subordinated Bonds constitute direct, unsecured and subordinated obligations of the Company. On a winding-up of the Company or in the event that an administrator of the Company is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the Subordinated Bonds will rank junior in priority to the claims of all senior creditors of the Company and the 2022 Notes, but senior to the RT1 Notes. Unless previously redeemed or purchased and cancelled, the Subordinated Bonds are scheduled to mature on 18 December 2025, subject to and in accordance with their terms. The Subordinated Bonds are listed on the LSE.

2027 Notes

On 6 July 2017, the Company issued US$500,000,000 5.375 per cent. Tier 2 notes due 2027 (the "**2027 Notes**"). The 2027 Notes constitute direct, unsecured and subordinated obligations of the Company. On a winding-up of the Company or in the event that an administrator of the Company is appointed and gives notice that it intends to declare and distribute a dividend, the claims of the holders of the 2027 Notes will rank junior in priority to the claims of all senior creditors of the Company and the 2022 Notes, but senior to the RT1 Notes. Unless previously redeemed or purchased and cancelled, the 2027 Notes are scheduled to mature on 6 July 2027, subject to and in accordance with their terms. The 2027 Notes are listed on the LSE.

PLL Tier 2 Bonds

In July 2001, Scottish Mutual Assurance Limited (which was then known as Scottish Mutual Assurance plc) issued £200 million 7.25 per cent. undated, unsecured subordinated notes (the "**PLL Tier 2 Bonds**"). With effect from 1 January 2009, as a part of a Part VII transfer, the PLL Tier 2 Bonds were transferred into the shareholder fund of PLL. The PLL Tier 2 Bonds have no fixed redemption date. The earliest date upon which PLL can redeem the PLL Tier 2 Bonds is on 25 March 2021 and on each fifth anniversary thereafter. In the event of the winding-up of PLL, the right of payment under the PLL Tier 2 Bonds is subordinated to the rights of the higher-ranking creditors (principally policyholders). The PLL Tier 2 Bonds are listed on the Luxembourg Stock Exchange. On 23 December 2014, the terms of the PLL Tier 2 Bonds were amended pursuant to an extraordinary resolution of the holders of the PLL Tier 2 Bonds and a supplemental trust deed effecting such changes in order to ensure that the PLL Tier 2 Bonds were compliant with the requirements of the General Prudential sourcebook as they applied to PLL. The PLL Tier 2 Bonds will continue to be treated as tier 2 capital for up to ten years from 1 January 2016 under the transitional arrangements set out in Solvency II.

RT1 Notes

On 26 April 2018, the Company issued £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes (the "**RT1 Notes**"). The RT1 Notes constitute direct, unsecured and deeply subordinated obligations of the Company and are perpetual securities with no fixed redemption date. The RT1 Notes will bear interest on their principal amount from (and including) 26 April 2018 to (but excluding) 26 April 2028 at a fixed rate of 5.75 per cent. per annum and thereafter at a fixed rate of interest which will be reset on 26 April 2028 (the first call date) and on each fifth anniversary thereafter. The Company may at its option redeem the RT1 Notes on the first call date or any interest payment date thereafter. On a winding-up or administration of the Company, claims of holders of the RT1 Notes would be subordinated to those of senior creditors of the Company and to the holders of any tier 2 and tier 3 notes issued by the Company (including, without limitation, the Subordinated Notes, the 2027 Notes and the 2022 Notes). Holders of RT1 Notes have an equal right to a return of assets in the winding-up or administration of the Company to, and so rank *pari passu* with, the holders of the most senior class or classes of issued preference shares (if any) in the capital of the Company from time to time and so ahead of holders of the Shares. However, notwithstanding such a ranking in a winding-up or administration, upon the occurrence of specific trigger events set out in the terms of the RT1 Notes (including a breach of certain solvency capital requirements), each of the RT1 Notes will be permanently and automatically written down to zero and in such certain circumstances the holders of the RT1 Notes will have no claim in the winding-up or administration of the Company. The RT1 Notes also contain provisions for the mandatory cancellation of interest in certain circumstances and also on a discretionary basis. The RT1 Notes are listed on the LSE.

Credit Facilities

Revolving Credit Agreement

For further information on the Revolving Credit Agreement, see paragraph 12.1.4 ("*Revolving Credit Agreement*") in Part XV ("*Additional Information*") of this document.

Backstop Revolving Credit Agreement

For further information on the Backstop Revolving Credit Agreement, see paragraph 12.1.5 ("*Backstop Revolving Credit Agreement*") in Part XV ("*Additional Information*") of this document. As a result of the amendments to the Revolving Credit Agreement becoming effective on 2 May 2018, the commitments under the Backstop Revolving Credit Agreement were cancelled on 2 May 2018.

Acquisition Facility Agreement

For further information on the Acquisition Facility Agreement, see paragraph 12.1.6 ("*Acquisition Facility Agreement*") in Part XV ("*Additional Information*") of this document. The Acquisition Facility Agreement has been made available on a certain funds basis.

Indebtedness

During the year ended 31 December 2017, cash receipts from Phoenix Life Companies were £653 million and finance costs attributable to owners were £104 million, resulting in a cash coverage ratio of 6.3:1. The cash coverage ratio (cash receipts: finance costs attributable to owners) is an indicator of the ability of the Group to meet its debt servicing costs, subject to any necessary regulatory permissions to loan or dividend up such cash amounts and any other regulatory restrictions on payments.

As at 31 March 2018, the Group had the following indebtedness:

	As at 31 March 2018
	(£ million)
Total current debt	
Secured[1]	48
Total current debt	**48**
Total non-current debt (excluding current portion of the long-term debt)	
Secured[1]	180
Unguaranteed / Unsecured[2]	1,530
Total non-current debt	**1,710**

Notes:

(1) Secured debts related to the £120 million 7.59 per cent. Class A2 limited recourse bonds, with an outstanding principal of £60 million as at 31 March 2018, secured against embedded value on a block of policies within PLAL, the Property Reversions loan from Santander UK plc, secured against related residential property reversions, and the Abbey Life Retrocession Contracts, secured on future surplus arising on a block of life insurance policies originating from the wholly-owned Spanish and Portuguese subsidiaries of Banco Santander, S.A. These borrowings are classified as policyholder borrowings as they have either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations.

(2) The PLL Tier 2 Bonds are undated and unsecured. The £428 million subordinated notes, the £450 million Tier 3 subordinated notes and the US $500 million Tier 2 bonds are dated and unsecured. The right of payment under the notes is subordinated to the rights of higher-rankings creditors (notably policyholders). The £300 million senior unsecured bond is unsubordinated.

(3) The table above does not include amounts outstanding under the RT1 notes issued on 26 April 2018.

Capitalisation

	As at 31 December 2017
	(£ million)
Shareholders' equity	
Share capital	—
Share premium	1,452
Shares held by the employee trust and Group entities	(2)
Foreign currency translation reserve	96
Owner-occupied property revaluation reserve	5
Cash flow hedging reserve	(11)
Retained earnings	1,615
Total capitalisation	**3,155**

There has been no material change in the issued share capital of the Company since 31 December 2017. The Group has no indirect and contingent indebtedness.

Distributable items

The Company is subject to the Companies Law, under which distributions can be made out of retained earnings (profits) or share premium, subject in each case to a solvency test. The solvency test is broadly consistent with the Group's going concern assessment criteria.

As at 31 December 2017, the Company's distributable items comprised:

	As at 31 December 2017
	(£ million)
Retained earnings (profits)	697
Share premium	1449
Total	**2,146**

Quantitative and qualitative disclosures about market risk

Quantitative and qualitative disclosures about market risk are included in the "*Risk Management*" section on pages 32 to 37 of the Annual Report and Accounts for the year ended 31 December 2017 and Note E6 to the audited consolidated financial statements included in the Annual Report and Accounts for the year ended 31 December 2017, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

Critical accounting policies

The critical accounting policies of the Company are set out in Note A3 of the audited consolidated financial statements included in the Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

PART IX—FINANCIAL INFORMATION OF STANDARD LIFE ASSURANCE

PART A: SELECTED HISTORICAL FINANCIAL INFORMATION RELATING TO STANDARD LIFE ASSURANCE

The tables below set out Standard Life Assurance's selected combined historical financial information as at and for years ended 31 December 2017, 2016 and 2015. The data has been extracted without material adjustment from the combined historical financial information of Standard Life Assurance included below in Part B ("*Historical Financial Information Relating to Standard Life Assurance*") of this Part IX ("*Financial Information of Standard Life Assurance*"). Investors should read the whole of this document and not rely solely on the summarised financial information below.

Selected combined income statement

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Total net revenue	**15,516**	**18,054**	**7,869**
Total expenses	**14,965**	**17,544**	**7,540**
Profit before tax	**551**	**510**	**329**
Tax expense attributable to policyholders' returns	159	233	80
Profit before tax attributable to equity holders profits	**392**	**277**	**249**
Total tax expense	207	271	120
Less: Tax expense attributable to policyholders' returns	(159)	(233)	(80)
Tax expense attributable to shareholders' profits	48	38	40
Profit for the year	**344**	**239**	**209**
Attributable to:			
Net parent investment	286	160	130
Non-controlling interest – Subordinated notes	34	34	34
Non-controlling interest – Other	24	45	45
Total profit attributable to holders of net investment	**344**	**239**	**209**

Selected combined statement of financial condition

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Total assets	**183,388**	**181,575**	**169,941**
Net Parent Investment	2,321	2,223	2,107
Non-controlling interest – Subordinated notes	502	502	502
Non-controlling interest – Other	297	302	290
Total Net Investment	**3,120**	**3,027**	**2,899**
Total liabilities	**180,268**	**178,548**	**167,042**
Total equity and liabilities	**183,388**	**181,575**	**169,941**

PART B: HISTORICAL FINANCIAL INFORMATION RELATING TO STANDARD LIFE ASSURANCE

Standard Life Assurance did not comprise a separate legal entity or group of legal entities during the years ended 31 December 2017, 2016 and 2015 and therefore the historical financial information of Standard Life Assurance combines the results, assets and liabilities of all entities within Standard Life Assurance. The combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 has been prepared specifically for the purposes of this document and in accordance with the Prospectus Directive Regulation (No. 2004/809/EC) and in accordance with the basis of preparation described in the accounting policies disclosed in the Company's IFRS financial statements for the year ended 31 December 2017.

Combined income statement for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Note	Year ended 31 December		
		2017	**2016**	**2015**
			(£ million)	
Revenue				
Gross earned premium		2,099	2,030	2,169
Premium ceded to reinsurers		(45)	(46)	(91)
Net earned premium		2,054	1,984	2,078
Investment return	3	12,801	15,421	5,148
Fee income	4	633	619	600
Other income		28	30	43
Total net revenue		**15,516**	**18,054**	**7,869**
Expenses				
Claims and benefits paid		4,397	4,766	4,542
Claim recoveries from reinsurers		(480)	(492)	(581)
Net insurance benefits and claims		3,917	4,274	3,961
Change in reinsurance assets	25	567	126	563
Change in insurance and participating contract liabilities	25	(1,392)	2,064	(1,767)
Change in non-participating investment contract liabilities	25	8,873	8,776	3,376
Change in unallocated divisible surplus	25	61	106	(108)
Change in third party interest in consolidated funds		1,537	444	287
Expenses under arrangements with reinsurers	5	202	509	42
Administrative expenses	6	1,075	1,045	1,159
Provision for annuity sales practices	32	100	175	—
Finance costs		25	25	27
Total expenses		**14,965**	**17,544**	**7,540**
Profit before tax		**551**	**510**	**329**
Tax expense attributable to policyholders' returns	8	159	233	80
Profit before tax attributable to equity holders profits		**392**	**277**	**249**
Total tax expense		207	271	120
Less: Tax expense attributable to policyholders' returns		(159)	(233)	(80)
Tax expense attributable to shareholders' profits	8	48	38	40
Profit for the year		**344**	**239**	**209**
Attributable to:				
Net parent investment		286	160	130
Non-controlling interest – Subordinated notes		34	34	34
Non-controlling interest – Other		24	45	45
Total profit attributable to holders of net investment		**344**	**239**	**209**

Combined statement of comprehensive income for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Note	Year ended 31 December		
		2017	**2016**	**2015**
			(£ million)	
Profit for the year		**344**	**239**	**209**
Items that will not be reclassified subsequently to profit or loss:				
Tax effect relating to items that will not be reclassified subsequently to profit	8	(6)	2	—
Remeasurement losses on defined benefit pension plans	28	(15)	162	168
Total items that will not be reclassified to profit or loss		**(21)**	**164**	**168**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		14	41	(12)
Total items that may be reclassified subsequently to profit or loss		**14**	**41**	**(12)**
Total other comprehensive income		**(7)**	**205**	**156**
Total comprehensive income for the year		**337**	**444**	**365**
Attributable to:				
Net Parent Investment		279	365	286
Non-controlling interest		58	79	79

Combined statement of financial position for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Note	Year ended 31 December		
		2017	2016	2015
		(£ million)		
Assets				
Intangible assets	10	85	95	66
Deferred acquisition costs	11	606	623	615
Investment property	12	8,374	6,653	8,437
Property and equipment	13	7	7	31
Pension and other post-retirement benefit assets	28	1,099	1,093	897
Deferred tax assets	14	11	16	7
Reinsurance assets	25	4,822	5,388	5,504
Loans	16	105	314	791
Derivative financial assets	15	3,026	3,517	2,441
Equity securities and interests in pooled investment funds	15	96,067	90,619	76,370
Debt securities	15	59,457	64,633	64,227
Receivables and other financial assets	18	616	857	1,155
Other assets	19	280	225	229
Assets held for sale	20	156	236	87
Cash and cash equivalents	21	8,677	7,299	9,084
Total assets		**183,388**	**181,575**	**169,941**
Net Investment				
Net Parent Investment	22	2,321	2,223	2,107
Non-controlling interest – subordinated notes	23	502	502	502
Non-controlling interest – other	24	297	302	290
Total Net Investment		**3,120**	**3,027**	**2,899**
Liabilities				
Non-participating insurance contract liabilities	25	22,747	22,919	20,828
Non-participating investment contract liabilities	25	104,383	101,997	92,824
Participating contract liabilities	25	30,577	31,268	29,660
Deposits received from reinsurers	26	4,633	5,093	5,134
Third party interest in consolidated funds		13,371	11,918	14,095
Subordinated liabilities	27	318	318	317
Pension and other post-retirement benefit provisions	28	51	55	33
Deferred income	29	157	195	233
Current tax liabilities	14	116	81	88
Deferred tax liabilities	14	235	231	176
Derivative financial liabilities	17	768	950	1,239
Other financial liabilities	30	2,538	3,250	2,339
Other liabilities	31	374	273	76
Total liabilities		**180,268**	**178,548**	**167,042**
Total equity and liabilities		**183,388**	**181,575**	**169,941**

Combined statement of changes in net investment for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Note	Net Parent Investment 2017	Non-Controlling interest (NCI) – subordinated notes 2017	Non-Controlling interest (NCI) – other 2017	Total Net Investment 2017
			(£ million)		
At 1 January		**2,223**	**502**	**302**	**3,027**
Profit for the year		286	34	24	344
Other comprehensive income for the year		(7)	—	—	(7)
Total comprehensive income for the year		**279**	**34**	**24**	**337**
Issue of share capital in SLAL		13	—	—	13
Dividends and appropriations	9	(180)	(34)	—	(214)
Other transactions with Standard Life		(14)	—	—	(14)
Other movements in NCI		—	—	(29)	(29)
At 31 December		**2,321**	**502**	**297**	**3,120**

	Note	Net Parent Investment 2016	NCI – subordinated notes 2016	NCI – other 2016	Total Net Investment 2016
			(£ million)		
At 1 January		2,107	502	290	2,899
Profit for the year		160	34	45	239
Other comprehensive income for the year		205	—	—	205
Total comprehensive income for the year		365	34	45	444
Issue of share capital in SLAL		34	—	—	34
Dividends and appropriations	9	(170)	(34)	—	(204)
Other transactions with Standard Life		(113)	—	—	(113)
Other movements in NCI		—	—	(33)	(33)
At 31 December		2,223	502	302	3,027

	Note	Net Parent Investment 2015	NCI – subordinated notes 2015	NCI – other 2015	Total Net Investment 2015
		(£ million)			
At 1 January		1,983	502	283	2,768
Profit for the year		130	34	45	209
Other comprehensive income for the year		156	—	—	156
Total comprehensive income for the year		286	34	45	365
Issue of share capital in SLAL		33	—	—	33
Dividends and appropriations	9	(190)	(34)	—	(224)
Other transactions with Standard Life		(5)	—	—	(5)
Other movements in NCI		—	—	(38)	(38)
At 31 December		2,107	502	290	2,899

Combined statement of cash flows for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Note	2017	2016	2015
			(£ million)	
Cash flows from operating activities				
Profit before tax		**551**	**510**	**329**
Adjusted for:				
Reversal of impairment on property and equipment	6	(4)	—	(1)
Amortisation of intangible assets	6	15	15	8
Amortisation of deferred acquisition costs	6	77	85	85
Finance costs		25	25	27
Foreign exchange loss		74	80	(20)
Net decrease/(increase) in operating assets and liabilities	33	1,152	(2,097)	(842)
Adjustment for non-cash movements in investment income		(140)	(76)	(20)
Taxation paid		(178)	(251)	(157)
Change in unallocated divisible surplus	25	61	106	(108)
Gain on disposal of property and equipment		—	—	(6)
Impairment losses on intangible assets	6	31	1	4
Net cash flows from operating activities		**1,664**	**(1,602)**	**(701)**
Cash flows from investing activities				
Purchase of property and equipment	13	—	(1)	—
Purchase of intangibles	10	(36)	(44)	(34)
Proceeds from sale of property and equipment	13	—	22	98
Net cash flows from investing activities	10	**(36)**	**(23)**	**64**
Cash flows from financing activities				
Dividends paid	9	(180)	(170)	(190)
Interest paid		(25)	(24)	(321)
Proceeds from issue of share capital	22	13	34	33
Appropriations	9	(34)	(34)	(34)
Other cash transactions with Standard Live		(43)	(146)	(43)
Net cash flows from financing activities		**(269)**	**(340)**	**(555)**
Net increase/(decrease) in cash and cash equivalents		**1,359**	**(1,965)**	**(1,192)**
Cash and cash equivalents at the beginning of the year		7,271	9,035	10,305
Effects of exchange rate changes on cash and cash equivalents		39	201	(78)
Cash and cash equivalents at the end of the year	21	**8,669**	**7,271**	**9,035**
Supplemental disclosures on cash flows from operating activities				
Interest received		1,093	1,160	1,184
Dividends received		1,447	1,184	1,198
Rental income received on investment property		430	378	401

The SL Insurance Business' operating portfolio of investment assets includes unit trusts and other investment funds that are classified for financial reporting purpsoes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows.

Notes to the financial statements for the years ended 31 December 2017, 31 December 2016 and 31 December 2015

1.1. Accounting Policies

(a) Basis of preparation

(i) Background to the Transaction

On 23 February 2018, Phoenix Group Holdings ("Phoenix"), entered into an agreement with Standard Life Aberdeen plc ("Standard Life" or "SL") to acquire the majority of its UK and European Pensions and Savings business (the "SL Insurance Business") (the "Transaction").

The sale involves the disposal of Standard Life Assurance Limited ("SLAL") and certain subsidiaries and Vebnet (Holdings) Limited ("Vebnet") and its subsidiary, with the Standard Life Aberdeen Group ("SL Group") retaining its UK retail platforms and financial advice business. The businesses transferring to Phoenix as part of the sale include the UK mature retail and spread/risk books and the Europe, UK retail and workplace businesses.

Standard Life Aberdeen will continue to be the asset manager for the insurance business acquired by Phoenix as well as the assets it already manages for Phoenix. The Transaction includes the extension and significant enhancement of the existing long term Strategic Partnership between SL and Phoenix.

(ii) Nature of the business

The Insurance Business main activities consist of the provision of life assurance products in the UK, Ireland and Germany, with the business written in Ireland and Germany through branches.

The accompanying historical financial information reflects the assets, liabilities, revenues and expenses directly attributed to the SL Insurance Business ("SL Insurance Business Historical Financial Information" or "SL Insurance Business HFI").

The SL Insurance Business includes financial position and results of SLAL and certain subsidiaries, as well as financial position and results of Vebnet and its subsidiaries (building and distribution of technology for management and administration of employee benefit schemes) which will be transferred into SLAL prior to completion of the Transaction. The list of significant legal entities included in the perimeter of the Transaction is provided in Note 40.

(iii) Basis of the carve out historical financial information

The SL Insurance Business has not comprised a separate legal entity or group of entities for the years ended 31 December 2017, 2016 and 2015. The SL Insurance Business HFI, which has been prepared specifically for the purpose of this document and is prepared on a basis that combines the results, assets and liabilities, and cash flows of the SL Insurance Business by applying the principles underlying the consolidation procedures relating to the elimination of intercompany transactions under IFRS 10 'Consolidated Financial Statements' for each of the three years ended 31 December 2017, 2016 and 2015 and as at these dates. On such basis, the SL Insurance Business HFI sets out the combined balance sheet as at 31 December 2017, 2016 and 2015 and the results of operations and cash flows for the three years then ended.

IFRS 1 First-time Adoption of International Financial Reporting Standards has been used by analogy to prepare the SL Insurance Business HFI. Each of the entities included prepares their standalone financial statements under IFRS adopted by the EU. In preparing the SL Insurance Business HFI the IFRS information has been extracted from the individual entity financial statements.

The SL Insurance Business HFI has been prepared in accordance with the requirements of the Listing Rules, and in accordance with this basis of preparation. This basis of preparation describes how the SL Insurance Business HFI has been prepared in accordance with International Financial Reporting Standards as adopted

by the European Union and the IFRS Interpretation Committee interpretations (together "IFRS"), except as described below. The principal accounting policies that have been applied to the SL Insurance Business HFI are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The SL Insurance Business HFI has been prepared in accordance with accounting policies that are consistent with those applied by Phoenix in its 31 December 2017 financial statements.

The SL Insurance Business HFI has been prepared on a combined basis and the results do not necessarily reflect what the results of operations, financial position, or cash flows would have been had the SL Insurance Business been a separate entity or the future results of the SL Insurance Business as it will exist upon completion of the transaction.

IFRS does not provide for the preparation of combined financial information and accordingly in preparing the SL Insurance Business HFI certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 "Standards for Investment Reporting applicable to public reporting engagements on historical financial information" issued by the U.K. Auditing Practices Board have been applied.

The SL Insurance Business HFI is presented in millions of pounds ('£') and is prepared on an historical cost and going concern basis.

The following summarises the accounting and other principles applied in preparing the SL Insurance Business HFI:

- The SL Insurance Business HFI was prepared using the SL Group's historical records of its assets and liabilities, and includes all sales, costs, assets and liabilities directly attributable to the SL Insurance Business. Costs directly associated with the SL Insurance Business, for example, the costs associated with outstanding claims, are separately identifiable and have been included directly within the SL Insurance Business HFI.

- Direct and overhead costs have been recharged to the SL Insurance Business from a related entity within the SLA Group, in line with SLA Group expense methodology, and there are no further central costs that require allocation in the preparation of the SL Insurance Business HFI. Prior to completion of the deal, a transfer of assets, licences and people is planned from this related entity into the SL Insurance Business perimeter. Future expense levels will therefore be on a different basis to the past.

- The SL Insurance Business has not in the past constituted a separate legal group and therefore it is not meaningful to show share capital or an analysis of reserves for the SL Insurance Business. The net assets of the SL Insurance Business are represented by the cumulative investment of the Standard Life group in the SL Insurance Business (shown as "Invested Capital").

- Contractual intercompany receivables / payables with Standard Life have been shown as financial assets / liabilities of the SL Insurance Business with related parties (see note 39 for more detail).

- Standard Life uses a centralised approach to cash management and financing its operations. Transactions between Standard Life and the SL Insurance Business are accounted for through invested capital. Accordingly, none of the cash, cash equivalents, debt or related interest expense at the corporate level has been assigned to the SL Insurance Business in the SL Insurance Business HFI, with the exception of that cash that is held by the legal entities being divested as part of the Transaction.

- The IAS 19 pension accounting (both income statement and balance sheet) for defined benefit plans, where SLAL was the sponsoring employer of the scheme, has been included in the track record, as it is considered to be integral to the financial performance and position of the SL Insurance Business.
- Tax charges / credits in the HFI have been determined based on the tax charges / credits recorded in the legal entities comprising the SL Insurance Business, together with an allocation of the tax charges recorded in Standard Life group associated with the business transferred. The tax charges recorded in the income statement may not necessarily be representative of the charges that may arise in the future.
- The SL Insurance Business does not maintain taxes payable to/from Standard Life, and it is deemed to settle the annual current tax balances immediately with the legal taxpaying entities. These settlements are reflected as changes in invested capital. Current tax balances owed by legal entities are shown as liabilities of the SL Insurance Business.

First time adoption of IFRS

As the SL Insurance Business has not previously prepared standalone financial statements, this Historical Financial Information is the first IFRS financial statements of the SL Insurance Business. Accordingly, an opening combined balance sheet as at 1 January 2015 has been presented in Note 41.

Assessing post balance sheet events

For the periods presented prior to 31 December 2017, the dates of authorisation of the underlying financial statements of the individual entities have been used when assessing post balance sheet events, i.e. events have only been considered up to the dates on which the relevant underlying financial statements were authorised. For the period ended 31 December 2017 the impact of post balance sheet events occurring up to the date of approval of the HFI has been considered.

(iv) Going concern

The planned separation of the SL Insurance Business has been considered and it is expected that the appropriate funding will be available for future operations after the separation occurs. It is expected that following separation from Standard Life, the SL Insurance Business will continue operating. The SL Insurance Business' forecasts and projections, taking account of possible changes in trading performance show that the SL Insurance Business will be able to operate at adequate levels of both liquidity and capital for a period of 12 months from the date of approval of this HFI.

(v) New standards, interpretations and amendments to published standards that have been adopted by the SL Insurance Business

The SL Insurance Business has adopted the following new interpretations and amendments to existing standards, which have been endorsed by the EU.

Interpretation or amendment	Effective Date[1]	Detail
Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative	1 January 2017	The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
Amendments to IAS 12 Income Taxes : Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	These amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

Note:

(1) For annual periods beginning on or after.

The SL Insurance Business' accounting policies have been updated to reflect these. Management considers the implementation of the above interpretations and amendments to existing standards has had no significant impact on the SL Insurance Business' financial statements.

(vi) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the SL Insurance Business

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's annual accounting periods beginning after 1 January 2017. The SL Insurance Business has not early adopted the standards, amendments and interpretations described below:

IFRS 15 ***Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)***

IFRS 15 will replace IAS 18 Revenue, and related interpretations. IFRS 15 provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. New disclosure requirements including estimate and judgement thresholds will also be introduced.

The SL Insurance Business' revenue generated from the following contracts are exempt from this standard:

- Lease contracts within scope of IAS 17 *Leases*
- Insurance contracts within scope of IFRS 4 *Insurance Contracts*
- Financial instruments within scope of IAS 39 Financial Instruments: Recognition and Measurement, IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements
- Investments in associates and joint ventures within scope of IAS 28 *Investments in Associates and Joint Ventures*

In 2015 the IASB issued amendments to the standard and delayed the mandatory adoption date until 1 January 2018. A detailed impact assessment was completed in 2017 for all major revenue streams, reviewing contracts and analysing the revenue recognised by the SL Insurance Business. No significant impacts to profit or net assets were identified.

IFRS 9 ***Financial Instruments (effective for annual periods beginning on or after 1 January 2018 with option to defer for certain insurance entities)***

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 allows two measurement categories for financial assets in the statement of financial position: amortised cost and fair value. All equity instruments and derivative instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is classified at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) depending on the business model it is held within or whether the option to adopt FVTPL has been applied. Changes in value of all equity instruments and derivative instruments are recognised in profit or loss unless an OCI presentation election is made at initial recognition for an equity instrument or a derivative instrument is designated as a hedging instrument in a cash flow hedge. IFRS 9 also introduces a new impairment model, an expected credit loss model which will replace the current incurred loss model in IAS 39. An impairment loss may now be recognised prior to a loss event occurring. Accounting for financial liabilities remains the same as under IAS 39 except that for financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised in OCI.

Additionally IFRS 9 amends the current requirements for assessing hedge effectiveness in IAS 39 and also amends what qualifies as a hedged item and some of the restrictions on what qualifies as a hedging instrument. The accounting and presentation requirements for designated hedging relationships remain largely unchanged.

As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements

In September 2016 the IASB issued amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts. The amendments address the consequences of the different effective dates of IFRS 9 and IFRS 17 Insurance Contracts. Insurers are permitted to defer implementation of IFRS 9 until periods beginning on or after 1 January 2021 if they satisfy criteria regarding the predominance of their insurance activities, or to apply an overlay approach to remove incremental volatility from the income statement. Management has determined that the SL Insurance Business is eligible to defer the implementation of IFRS 9 and has opted to do so.

The impact of the implementation of IFRS 9 will be dependent on the implementation of IFRS 17.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The accounting for leases by lessors remains largely unchanged.

The implementation of the standard is not expected to have a significant impact on the SL Insurance Business.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021)

IFRS 17 was issued in May 2017 and will replace IFRS 4 Insurance Contracts. IFRS 4 is an interim standard which permits the continued application of accounting policies, for insurance contracts and contracts with discretionary participation features, which were being used at transition to IFRS except where a change satisfies criteria set out in IFRS 4. IFRS 17 introduces new required measurement and presentation accounting policies for such contracts which reflect the view that these contracts combine features of a financial instrument and a service contract.

IFRS 17's measurement model, which applies to groups of contracts, combines a risk-adjusted present value of the future cash flows and an amount representing the unearned profit. On transition retrospective application is required unless impracticable, in which case either a modified retrospective approach or a fair value approach is required. IFRS 17 introduces a new approach to presentation in the income statement and statement of comprehensive income.

IFRS 17 will impact the reporting of results arising from insurance contracts and contracts with discretionary participating features issued by the SL Insurance Business. The SL Insurance Business has commenced a project which will cover both the implementation of IFRS 17 and IFRS 9. IFRS 17 has not yet been endorsed by the EU.

Other

There are no other new standards, interpretations and amendments to existing standards that have been published that are expected to have a significant impact on the financial statements of the SL Insurance Business.

(vii) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to exercise judgements in applying the accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Judgements and sources of estimation uncertainty are continually evaluated and based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the SL Insurance Business historical financial information are as follows:

Financial statement area	Critical estimates and judgements in applying accounting policies	Related note
Classification of insurance, reinsurance and investment contracts	Assessment of the significance of insurance risk transferred, and treatment of contracts which have insurance, non-participating investment and participating investment elements.	Note 25
Defined benefit pension plans	Assessment of whether SLAL has an unconditional right to a refund of the surplus Treatment of tax relating to the surplus	Note 28
Contingent liabilities	Assessment of whether the SL Insurance Business has a contingent liability in relation to conduct matters	Note 37
Intangible assets	Determination of amounts to be recognised as internally developed software	Note 10
Participating contracts, non-participating insurance contracts and reinsurance contracts	Determination of the valuation interest rates for annuity liabilities Determination of longevity and mortality assumptions for annuity liabilities	Note 25
Financial instruments at fair value through profit or loss	Determination of the fair value of private equity investments, debt securities categorised as level 3 in the fair value hierarchy	Note 15 and 36
Investment property and owner occupied property	Determination of the fair value of investment property and owner occupied property	Note 15 and 36

Financial statement area	Critical estimates and judgements in applying accounting policies	Related note
Defined benefit pension plans	Determination of UK pension plan assumptions for mortality, discount rate and inflation	Note 28
Provisions	Measurement of provision for annuity sales practices	Note 32

(b) Consolidation – ***Subsidiaries***

The SL Insurance Business HFI consolidates the financial statements of SLAL and certain subsidiaries and combines Vebnet and its subsidiaries (as described in notes 1.1(a)(ii) and 1(a)(iii).

Subsidiaries are all entities, including structured entities, which the SL Insurance Business is considered to control.

Under IFRS 10, control arises when the SL Insurance Business is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intra-group transactions, balances, income and expenses are eliminated in full.

(c) Associates

Associates are entities where the SL Insurance Business can significantly influence decisions made relating to the financial and operating policies of the entity but does not control the entity. For entities where voting rights exist, significant influence is presumed where the SL Insurance Business holds over 20% of the voting rights but does not have control.

Where the SL Insurance Business has an investment in an associate, a portion of which is held by, or is held indirectly through, a mutual fund, unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at fair value through profit or loss (FVTPL).

Associates, other than those accounted for at fair value through profit or loss, and joint ventures are accounted for using the equity method from the date that significant influence or shared control, respectively, commences until the date this ceases with consistent accounting policies applied throughout.

Investment in associates is classified as equity securities and pooled investment funds in the statement of financial position.

(d) Associates

The SL Insurance Business has investments in a range of investment vehicles including open-ended investment companies (OEIC's), unit trusts and limited partnerships. These vehicles are structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity and as such are classified as structured entities. The SL Insurance Business' ownership interest in these vehicles can vary from day to day based on the SL Insurance Business and third party participation in them. The control assessment of each of these entities considers the rights of the SL Insurance Business to direct the relevant activities of the vehicle, its exposure to variability of returns and the ability to affect those returns using its power. In addition, the removal rights of other investors that may affect the capacity of the SL Insurance Business to direct the relevant activities are also taken into account. Where the SL Insurance Business is deemed to control such vehicles, they are treated as subsidiaries of the SL Insurance Business and consolidated in line with accounting policy (b). Where the SL Insurance Business has an investment but not control over these types of entities, the investment is classified as equity securities and pooled investment funds in the statement of financial position.

(e) Foreign currency translation

The financial statements are presented in millions pounds Sterling, which is the SL Insurance Business' presentation currency.

The statement of financial position of the SL Insurance Business' subsidiaries and branches that have a different functional currency than the SL Insurance Business' presentation currency are translated into the presentation currency at the year-end exchange rate (Euro: 1.126 2016: 1.171; 2015: 1.357) and their income statements and cash flows are translated at average exchange rates (Euro: 1.145 2016: 1.229; 2015: 1.375) for the year. All resulting exchange differences are recognised in other comprehensive income. Where the unallocated divisible surplus changes as a result of such exchange differences which are attributable to participating policyholders, this change in the unallocated divisible surplus is not recognised in the income statement but is recognised in other comprehensive income (refer also to (x)(iii)).

Foreign currency transactions are translated into the functional currency of the entity at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity securities held at FVTPL, are reported as part of the fair value gain or loss in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the income statement.

(f) Business combinations

The SL Insurance Business uses the acquisition method to account for acquisitions of businesses. At the acquisition date the assets and liabilities of the business acquired and any non-controlling interests are identified and initially measured at fair value on the statement of financial position.

When the SL Insurance Business acquires or disposes of a subsidiary, the profits and losses of the subsidiary are included from the date on which control was transferred to the SL Insurance Business until the date on which it ceases, with consistent accounting policies applied across all entities throughout.

(g) Classification of insurance, reinsurance and investment contracts

The measurement basis of assets and liabilities arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts. A contract is classified as insurance only if it transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits to those payable if no insured event occurred, excluding scenarios that lack commercial substance. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. When a policyholder exercises an option within an investment contract to utilise withdrawal proceeds from the investment contract to secure future benefits which contain significant insurance risk, the related investment contract liability is derecognised and an insurance contract liability is recognised. The withdrawal proceeds which are used to secure the insurance contract are recognised as premium income in accordance with accounting policy (h)(ii). Life and pensions business contracts that are not considered to be insurance contracts are classified as investment contracts.

The SL Insurance Business has written life and pensions business contracts which contain discretionary participating features (e.g. with profits business). These contracts provide a contractual right to receive additional benefits as a supplement to guaranteed benefits. These additional benefits are based on the performance of with profits funds and their amount and timing is at the discretion of the SL Insurance Business. These contracts are referred to as participating contracts.

Generally, life and pensions business product classes are sufficiently homogeneous to permit a single classification at the level of the product class. However, in some cases, a product class may contain individual contracts that fall across multiple classifications (hybrid contracts). For certain significant hybrid contracts the product class is separated into the insurance element, a non-participating investment element and a participating investment element, so that each element is accounted for separately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as a reinsurance contracts.

(h) Revenue recognition

(i) Deposit accounting for non-participating investment contracts

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue in the income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (g).

The fee income associated with non-participating investment contracts is dealt with under policy (h)(iv).

(ii) Premiums

Premiums received on insurance contracts and participating investment contracts are recognised as revenue when due for payment, except for unit-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

(iii) Net investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as FVTPL, including investment income received are recognised in the income statement in the period in which they occur. The gains and losses include investment income received such as interest payments, but excludes dividend income. Dividend income is recognised in the income statement when the right to receive payment is established.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted such as rent free periods are recognised as an integral part of the total rental income and are spread over the term of the lease.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the income statement.

Interest income on loans and receivables is separately recognised in the income statement using the effective interest rate method. The effective interest rate method allocates interest and other finance costs at a constant rate over the expected life of the financial instrument, or where appropriate a shorter period, by using as the interest rate that exactly discounts the future cash receipts over the expected life to the net carrying value of the instrument.

(iv) Fee Income

All fees related to unit-linked non-participating investment contracts are deemed to be associated with the provision of investment management services. Fees related to the provision of investment management services and administration services are recognised as the services are provided. Front-end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life

of the contract. Ongoing fees that are charged periodically, either directly or by making a deduction from invested funds, are recognised as received, which corresponds to when the services are provided.

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable the SL Insurance Business will be required to render further services during the life of the policy, the commission is deferred as a liability and is recognised as the services are provided.

Other fee income is related to the development and distribution of technology for the management and administration of employee benefits and the provision of management services are stated net of value added tax. Fee income deriving from support contracts and fixed term licences are recognised over the relevant contract periods. Fee income deriving from the delivery of professional services is calculated with reference to the value of the work performed to date as a proportion of total contract value. Fee income deriving from the supply of other goods and services is recognised following the provision of goods and services.

(i) Expense recognition

(i) Deposit accounting for non-participating investment contracts

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (g).

(ii) Claims and benefits paid

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the income statement.

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the insurance liability. Death claims and all other claims are accounted for when notified.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Change in insurance and participating investment contract liabilities

The change in insurance and participating investment contract liabilities comprising the full movement in the corresponding liabilities during the period is recognised in the income statement.

(iv) Change in investment contract liabilities

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the income statement as changes in investment contract liabilities.

(v) Change in unallocated divisible surplus (UDS)

The change in UDS recognised in the income statement comprises the movement in the UDS during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the income statement as it is also recognised in other comprehensive income.

(vi) Expenses under arrangements with reinsurers

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the consolidated income statement as expenses under arrangements with reinsurers.

(vii) Administrative expenses

Administrative expenses are recognised on an accruals basis.

(j) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, at least at each reporting date. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets which have been impaired are reviewed for possible reversal of impairment losses at each reporting date.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, or group of units, to which the asset belongs.

(k) Intangible assets

Intangible assets consist fully of internally developed software (see note 10) and are recognised in the statement of financial position if it is probable that the relevant future economic benefits attributable to the assets will flow to the SL Insurance Business and their cost can be measured reliably and are either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are assessed for impairment at each reporting date. An assessment is made as to whether there is an indication that the intangible asset has become impaired. If such an indication of impairment exists then the asset's recoverable amount is estimated. Irrespective of whether there is any indication of impairment, for intangible assets that are not yet available for use the recoverable amount is estimated each year at the same time. If the carrying value of an intangible asset exceeds its recoverable amount then the carrying value is written down to the recoverable amount.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of between 3 and 10 years of the intangible asset. Impairment losses are calculated and recorded on an individual basis in a manner consistent with policy (j). Amortisation commences at the time from which an intangible asset is available for use.

(l) Deferred acquisition costs

(i) Insurance and participating investment contracts

Acquisition costs incurred in issuing insurance or participating investment contracts are not deferred where such costs are borne by a with profits fund that was subject to the Prudential Regulation Authority (PRA) realistic capital regime. For other participating investment contracts, incremental costs directly attributable to the issue of the contracts are deferred. For other Insurance contracts, acquisition costs, which include both incremental acquisition costs and other indirect costs of acquiring and processing new business, are deferred.

Deferred acquisition costs are amortised in proportion to projected margins over the period the relevant contracts are expected to remain in force. After initial recognition, deferred acquisition costs are reviewed by category of business and written off to the extent that they are no longer considered to be recoverable.

(ii) Non-participating investment contracts

Incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit linked investment contracts are deferred. Where such costs are borne by a with profits fund that was subject to the PRA's realistic capital regime, deferral is limited to the level of any related deferred income.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

Trail or renewal commission on non-participating investment contracts where the SL Insurance Business does not have an unconditional legal right to avoid payment, is deferred at inception of the contract and an offsetting liability for contingent commission is established.

(m) Investment property

Property held for long-term rental yields or investment gain that is not occupied by the SL Insurance Business and property being constructed or developed for future use as investment property are classified as investment property.

Investment property is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains or losses arising from changes in the fair value are recognised in the income statement. Investment property is not depreciated.

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income and are also spread over the term of the lease.

(n) Property and equipment

Owner occupied property consists of property occupied by the SL Insurance Business. Owner occupied property is recognised initially at cost and subsequently at fair value at the date of revaluation less any subsequent accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset into working condition for its intended use.

Increases in the fair value of owner occupied property are recognised in the statement of other comprehensive income and the revaluation reserve in equity. Decreases in the fair value of owner occupied property that offset previous increases in the same asset are recognised in other comprehensive income. All other decreases are charged to the income statement for the period.

Owner occupied property is depreciated on a straight-line basis over its estimated useful life, generally between thirty and fifty years. The depreciable amount of an asset is determined by the difference between the fair value and the residual value. The residual value is the amount that would be received on disposal if the asset was already at the age and condition expected at the end of its useful life.

Equipment is stated at historical cost less depreciation. Cost includes the original purchase price of the assets and the costs attributable to bring the asset to its working condition for its intended use. Depreciation on equipment is charged to the income statement on a straight-line basis over their estimated useful lives of between two and fifteen years. The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

(o) Taxation

Current tax and deferred tax is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly in equity respectively.

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset represents a tax deduction that is expected to arise in a future period. It is only recognised to the extent that there is expected to be future taxable profit or investment return to offset the tax deduction. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction. Where local tax law allows, deferred tax assets and liabilities are netted off on the statement of financial position. The tax rates used to determine deferred tax are those enacted or substantively enacted at the reporting date.

Deferred tax is recognised on temporary differences arising from investments in associates unless it is expected that the temporary difference will not reverse in the foreseeable future and the timing of the reversal is in our control.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future or the SL Insurance Business is not able to control the timing of the reversal.

The tax expense is determined using rates enacted or substantively enacted at the reporting date.

The SL Insurance Business provides additional disclosure in relation to the total tax expense. Certain products are subject to tax on policyholders' investment returns. This tax, 'policyholder tax', is accounted for as an element of income tax. To make the tax expense disclosure more meaningful, we disclose policyholder tax and tax payable on equity holders' profits separately. The policyholder tax expense is the amount payable in the year plus the movement of amounts expected to be payable in future years by policyholders on their investment return. The remainder of the tax expense is attributed to equity holders as tax payable on equity holders' profit.

(p) Reinsurance assets

Reinsurance assets arise under contracts that are classified as reinsurance contracts (refer to policy (g)).

Reinsurance contracts are measured using valuation techniques and assumptions that are consistent with the valuation techniques and assumptions used in measuring the underlying policy benefits and taking into account the terms of the reinsurance contract.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in Receivables and other financial assets and Other financial liabilities respectively.

If a reinsurance asset is considered to be impaired, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement.

(q) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the SL Insurance Business intends to sell in the short term or that it has designated as FVTPL. For loans designated at FVTPL see accounting policy I. Financial assets classified as loans include deposits with credit institutions, loans secured by mortgages and loans secured on policies.

Loans are initially measured at fair value plus directly attributable transaction costs. Subsequently, other than those loans designated at FVTPL, they are measured at amortised cost, using the effective interest rate method (EIR), less any impairment losses. Revenue from financial assets classified as loans is recognised in the income statement on an EIR basis.

Impairment on individual loans is determined at each reporting date. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the SL Insurance Business. This would include a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition

of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. The SL Insurance Business first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred on loans carried at amortised cost, the amount of the impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan's current carrying value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Subsequent recoveries are credited to the income statement.

If there is no evidence of impairment on an individual basis, a collective impairment review is undertaken whereby the assets are grouped together, on the basis of similar credit risk characteristics, in order to calculate a collective impairment loss.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Loans which are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the renegotiated terms have been collected. Individually significant loans whose terms have been renegotiated are subject to on-going review to determine whether they remain impaired or past due.

(r) Equity securities, debt securities and derivatives including embedded derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition.

All of the SL Insurance Business' equity securities and debt securities (including include loans designated at FVTPL) are designated as at fair value through profit or loss (FVTPL) as they are part of groups of assets which are managed and whose performance is evaluated on a fair value basis so as to maximise returns either for policyholders or equity holders.

All derivative instruments are classified as held for trading (HFT), except those designated as part of a hedging relationship.

Equity securities, debt securities and derivatives are recognised at fair value on the trade date of the transaction. In the case of derivatives, where no initial premium is paid or received, the initial measurement value is nil. For instruments classified as HFT or designated as at FVTPL, directly attributable transaction costs are not included in the initial measurement value but are recognised in the income statement.

Where a valuation technique is used to establish the fair value of a financial instrument, a difference could arise between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation technique is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out. Instruments classified as HFT or as at FVTPL are measured at fair value with changes in fair value recognised in the income statement.

Options, guarantees and other derivatives embedded in a host contract are separated and recognised as a derivative unless they are either considered closely related to the host contract, meet the definition of an insurance contract or if the host contract itself is measured at fair value with changes in fair value recognised in income.

(s) Financial guarantee contracts

The SL Insurance Business recognises and measures financial guarantee contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* The SL Insurance Business initially recognises and measures a financial guarantee contract at its fair value. At each subsequent reporting date, the SL Insurance Business measures the financial guarantee contract at the higher of the initial fair value recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue* and

the best estimate of the expenditure required to meet the obligations under the contract at the reporting date, determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

(t) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, money held at call and short notice with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. Cash and cash equivalents are categorised for measurement purposes as loans and are therefore measured at amortised cost. For the purposes of the statement of cash flows cash and cash equivalents also include bank overdrafts, which are included in borrowings on the statement of financial position.

(u) Non current assets held for sale

Assets and liabilities which have been classified as held for sale are presented separately in the statement of financial position. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated costs that are directly attributable to the disposal (excluding finance costs and current tax expense)

Investment property and owner occupied property held for sale relates to property for which contracts have been exchanged but the sale had not completed during the current financial year. Investment property held for sale continue to be measured based on the accounting policies that applied before they were classified as held for sale.

(v) Net investment

(i) Net Parent Investment and Non-Controlling Interests

Amounts shown as net investment include any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An instrument is classified in this category when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable.

(w) Measurement – insurance and participating investment contract liabilities

For insurance contracts and participating investment contracts, IFRS 4 Insurance Contracts permits the continued application, for measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. Therefore the SL Insurance Business applies accounting policies determined in accordance with the ABI SORP as described below. As was permitted under the ABI SORP, the SL Insurance Business adopts local regulatory valuation methods, adjusted for consistency with asset measurement policies, for the measurement of liabilities under insurance contracts and participating investment contracts.

(x) Measurement – Participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities;
- Participating investment contract liabilities;
- PVFP on non-participating contracts, which is treated as a deduction from the gross participating contract liabilities; and
- Unallocated divisible surplus.

The policy for measuring each component is noted below.

(i) New standards, interpretations and amendments to published standards that have been adopted by the SL Insurance Business

Participating contract liabilities arising under contracts issued by with profits funds which were within the scope of the PRA's realistic capital regime at 31 December 2015 (prior to the introduction of Solvency II) are measured on the PRA realistic

basis that was used in the PRA realistic capital regime. Under this approach the value of participating insurance and participating investment contract liabilities in each with profits fund is calculated as:

- With profits benefits reserves (WPBR) for the fund as determined under the PRA realistic basis; plus
- Future policy related liabilities (FPRL) for that fund as determined under the PRA realistic basis; less
- Any amounts due to shareholders included in FPRL; less
- The portion of future profits on non-participating contracts included in FPRL not due to shareholders, where this portion can be separately identified.

The WPBR is primarily based on the retrospective calculation of accumulated asset shares. The aggregate value of individual policy asset shares reflects the actual premium, expense and charge history of each policy. The net investment return credited to the asset shares is consistent with the return achieved on the assets notionally backing participating business. Any mortality deductions are based on published mortality tables adjusted where necessary for experience variations. For those asset shares on an expense basis the allowance for expenses attributed to the asset share is as far as practical the appropriate share of the actual expenses incurred or charged to the fund. For those on a charges basis the allowance is consistent with the charges for an equivalent unit linked policy. The FPRL comprises other components such as a market consistent stochastic valuation of the cost of options and guarantees.

The SL Insurance Business' principal with profits fund is the Heritage With Profits Fund (HWPF). The participating contracts held in the HWPF were issued by a with profits fund that fell within the scope of the PRA realistic capital regime.

On 10 July 2006, The Standard Life Assurance Company (SLAC) demutualised. The demutualisation of SLAC was governed by its Scheme of Demutualisation (the 'Scheme'). Under the Scheme substantially all of the assets and liabilities of SLAC were transferred to the SL Insurance Business.

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the Board of the SL Insurance Business is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. This planned enhancement to the benefits under with profits contracts held in the HWPF is included in the FPRL under the PRA realistic basis resulting in a realistic surplus of £nil. Applying the policy noted above this planned enhancement is therefore included within the measurement of participating contract liabilities.

The Scheme provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Irish business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the SL Insurance Business' Shareholder Fund or Proprietary Business Fund (PBF) and thus accrue to the ultimate benefit of equity holders of Standard Life plc. Under the Scheme such transfers are subject to constraints to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business.

Under the PRA realistic basis the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the FPRL (as a reduction in FPRL where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure of non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition

to FPRL. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above:

- The value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position is reduced by future expected (net positive) cash flows arising on participating contracts.

- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF on the consolidated statement of financial position. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to reduce the value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position.

Some participating contracts are issued by a non-participating fund with a with profits investment element then transferred to a with profits fund within the SL Insurance Business that fell within the scope of the PRA's realistic capital regime. The with profits investment element of such contracts is measured as described above. Any liability for insurance features retained in the non-participating fund is measured using the gross premium method applicable to non-participating contracts (see policy (y)(i)).

(ii) PVFP on non-participating contracts held in a with profits fund

This applies only to the HWPF as no other with profits fund holds non-participating contracts. An amount is recognised for the PVFP on non-participating contracts since the determination of the realistic value of liabilities for with profits contracts in the HWPF takes account of this value. The amount is recognised as a deduction from liabilities. As this amount can be apportioned between an amount recognised in the realistic value of with profits contract liabilities and an amount recognised in the UDS, the apportioned amounts are reflected in the measurement of participating contract liabilities and UDS respectively.

(iii) Unallocated divisible surplus (UDS)

The UDS comprises the difference between the assets and all other recognised liabilities in the SL Insurance Business' with profits funds. This amount is recognised as a liability as it is not considered to be allocated to shareholders due to uncertainty regarding transfers from these funds to shareholders.

In relation to the HWPF, amounts are considered to be allocated to shareholders when they emerge as recourse cash flows within the HWPF.

As a result of the policies for measuring the HWPF's assets and all its other recognised liabilities:

(i) the UDS of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future recourse cash flows on non-participating contracts), the value of future additional expenses to be charged on German branch business and the effect of any measurement differences between the Realistic Balance Sheet value and IFRS accounting policy value of all assets and all liabilities other than participating contract liabilities recognised in the HWPF.

(ii) the recourse cash flows are recognised as they emerge as an addition to shareholders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business they are recognised as an addition to equity holders' profits.

(y) Non-participating contract liabilities

(i) Non-participating insurance contracts

The liability for annuity in payment contracts is measured by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from yields on the underlying assets.

Other non-participating insurance contracts are measured using the gross premium method. In general terms, a gross premium valuation basis is a discounted cash flow in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims and costs of maintaining contracts. Cash flows are discounted at the valuation rate of interest determined to reflect conditions at the reporting date in accordance with PRA requirements that existed at 31 December 2015.

(ii) Non-participating investment contracts

Unit linked non-participating investment contracts are separated into two components being an investment management services component and a financial liability. All fees and related administrative expenses are deemed to be associated with the investment management services component (see h(iv), l(ii), (dd)). The financial liability component is designated at FVTPL as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets.

(z) Liability adequacy test

The SL Insurance Business applies a liability adequacy test at each reporting date to ensure that the insurance and participating contract liabilities (less related deferred acquisition costs) are adequate in the light of the estimated future cash flows. This test is performed by comparing the carrying value of the liability and the discounted projections of future cash flows.

If a deficiency is found in the liability (i.e. the carrying value amount of its insurance liabilities is less than the future expected cash flows) that deficiency is provided for in full. The deficiency is recognised in the income statement.

(aa) Borrowings

Borrowings include bank overdrafts and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost with any difference between the carrying value and redemption value being recognised in the income statement over the period of the borrowings on an EIR basis.

(bb) Subordinated liabilities

Subordinated liabilities are debt instruments issued by the SL Insurance Business which rank below its other obligations in the event of liquidation but above the Net parent investment. Subordinated liabilities are initially recognised at the value of proceeds received net of issue expenses. The total finance costs are charged to the income statement over the relevant term of the instrument using the EIR method. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

(cc) Pension costs and other post retirement benefits

The SL Insurance Business operates two types of pension plans for staff:

- Defined benefit plans where the scheme is obligated to provide pension payments upon retirement to members as defined by the scheme rules; and
- Defined contribution plans where the SL Insurance Business has agreed to contribute to a member's pension plan but has no further payment obligations once the contributions have been paid.

SLAL is the sponsoring employer for a number of the defined benefit plans for the Group's employees in the UK, Germany and Ireland and therefore recognises the total net defined cost of the plans. The Group's liabilities in relation to its defined benefit plans are valued by at least annual actuarial calculations. The Group has funded these liabilities in relation to its principal defined benefit plans by ring-fencing assets in an independent trustee-administered fund. The Group has further smaller defined benefit plans which are unfunded.

The statement of financial position reflects a net asset or net liability for each defined benefit pension plan. The liability recognised is the present value of the defined benefit obligation (estimated future cash flows are discounted using the yields on high quality corporate bonds) less the fair value of plan assets, if any. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if SLAL considers that it has an unconditional right to a refund of the surplus from the plan. The amount of surplus recognised will be limited by tax and expenses. Our judgement is that, in the UK, an authorised surplus tax charge is not an income tax. Consequently, the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

Net interest income (if a plan is in surplus) or interest expense (if a plan is in deficit) is calculated using yields on high quality corporate bonds and recognised in the income statement. A current service cost is also recognised which represents the expected present value of the defined benefit pension entitlement earned by members in the period.

Remeasurements, which include gains and losses as a result of changes in actuarial assumptions, the effect of the limit on the plan surplus and returns on plan assets (other than amounts included in net interest) are recognised in the statement of comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit of loss in subsequent periods.

For defined contribution plans, the SL Insurance Business pays contributions to publicly or privately administered pension insurance plans. The SL Insurance Business has no further payment obligations once the contributions have been paid. The contributions are recognised in staff costs and other employee-related costs when they are due.

(dd) Deferred income

Front-end fees on service contracts, including investment management service contracts are deferred as a liability and amortised to the income statement over the period services are provided.

(ee) Provisions and contingent liabilities

Provisions are recognised when the SL Insurance Business has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Contingent liabilities are possible obligations of the SL Insurance Business of which timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position but are disclosed, unless they are considered remote. If such an obligation becomes probable and the amount can be measured reliably it is no longer considered contingent and is recognised as a liability. Contingent assets are disclosed if the inflow of economic benefits is probable, but not virtually certain.

(ff) Dividends and appropriations

Final dividends on share capital of legal entities within the deal perimeter classified as equity instruments are recognised in equity when they have been approved by shareholders. Interim dividends on these shares are recognised in equity in the period in which they are paid. Coupon payments on debt instruments classified as equity instruments are recognised as appropriations of equity in the period in which they are paid.

(gg) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where the SL Insurance Business is the lessee, payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Where the SL Insurance Business is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. Initial direct costs incurred in arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

(hh) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The SL Insurance Business retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The SL Insurance Business has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the income statement.

(ii) Operating Profit

The SL Insurance Business has chosen to report a non-GAAP measure of performance, being operating profit. Operating profit excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing certain shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer-term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the SL Insurance business' core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- finance costs attributable to owners;
- gains or losses on the disposal of subsidiaries, associates or joint ventures (net of related costs of disposal);
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and

- any other items which, in the view of the SL Insurance Business, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the financial performance of the business. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

1.2. Fund structures and insurance, investment and reinsurance contract terms

The SL Insurance Business operates a fund structure which was established on the demutualisation of The Standard Life Assurance Company (SLAC) on 10 July 2006, under which its recognised assets and liabilities are allocated to one of the following funds:

- Shareholder Fund (SHF)
- Proprietary Business Fund (PBF) – includes UK, German and Irish branches
- Heritage With Profits Fund (HWPF) – includes UK, German and Irish branches
- German With Profits Fund (GWPF)
- German Smoothed Managed With Profits Fund (GSMWPF)
- UK Smoothed Managed With Profits Fund (UKSMWPF)

(a) Fund Structure

(i) Insurance and investment contracts issued since demutualisation

The liabilities and associated supporting assets for contracts issued since demutualisation are held in the PBF except for the element of any contract where the customer has chosen to invest in a with profits (i.e. participating) fund. The assets and associated liabilities, including liabilities for financial guarantees, for such with profits investment elements are held in the GWPF, GSMWPF or UKSMWPF. The PBF is sub-divided into internal linked funds (unit linked funds) and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and corresponding liabilities for such unit linked investment elements are held in the unit linked funds. Asset management charges are transferred from the unit linked funds to the non-unit linked sub-fund of the PBF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element are held in the non-unit linked sub-fund of the PBF. Any liabilities for insurance features contained within a contract that has a with profits element are held in the non-unit linked sub-fund of the PBF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are held in the non-unit linked sub-fund of the PBF.

(ii) Insurance and investment contracts issued before demutualisation

The liabilities and associated supporting assets for contracts, both participating and non-participating, issued prior to demutualisation are mostly held in the HWPF except for (i) the assets and corresponding liabilities for unit linked investment elements of such contracts, and (ii) the supporting assets and associated liabilities for longevity risk and investment risk on certain annuity contracts. The assets and associated liabilities for these two contract components are held in the PBF. Asset management charges arising on unit linked investment elements are transferred from the PBF to the HWPF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element or a with profits investment element are held in the HWPF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are also held in the HWPF.

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the board of the SL Insurance Business is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF.

The Scheme provides that certain defined cash flows (recourse cash flows (RCF)) arising in the HWPF on specified blocks of UK and Ireland business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the SHF, and thus accrue to the ultimate benefit of shareholders of the SL Insurance Business. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of Germany branch business. Under these mechanisms profits, on an RCF basis, on non-participating business excluding investment spread profits on annuities and profits, on an RCF basis or German additional expenses basis, on unitised with profits contracts are transferred to the SHF. All investment return on the HWPF investments is retained in the HWPF for the ultimate benefit of participating policyholders. Under the Scheme, transfers to the SHF are subject to certain constraints in order to protect policyholders.

(b) Insurance, investment and reinsurance contract terms including guarantees and options

Details of the significant types of insurance and investment contracts issued, the nature of any guarantees and options provided under these contracts and details of significant reinsurance contracts are given below.

(i) Insurance and investment contracts issued since demutualisation UK annuity-in-payment contracts

This class of business consists of single premium contracts that provide guaranteed annuity payments. The payments depend on the survival of a life or lives with or without a guaranteed period and may reduce on a specified death or increase each year at a predefined rate or based on the increase in the UK RPI. These contracts are classified as non-participating insurance contracts.

The total liability at 31 December 2017 for Retail Price Index (RPI) linked annuities in payment (including any guaranteed minimum rate of escalation) is £457m (2016: £445m; 2015: £373m) and this represents approximately 10% (2016: 10%; 2015: 9%) of the total liability for UK annuity in payment contracts held within the PBF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall. If the market moves in line with the adverse scenarios as shown in the market risk sensitivity analysis in Note 37 (b)(ii) below, then the impact on shareholder equity from these RPI linked annuities and corresponding assets is not significant.

For those annuities in payment which increase at a predefined rate, the total liability at 31 December 2017 is £458m (2016: £432m; 2015: £348m) and this represents approximately 10% (2016: 10%; 2015: 9%) of the total liability for UK annuity in payment contracts held in the PBF.

If the market moves in line with the adverse market conditions as shown in the market risk sensitivity analysis, the impact on shareholder equity from those annuities with a predefined rate of increase and the corresponding assets is not significant.

UK and Ireland unit linked pension contracts

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts.

The major unit linked pension contracts include UK Active Money Self Invested Personal Pensions (SIPP), UK Active Money Personal Pension, UK Stakeholder, Irish Synergy Personal Pension, UK Group SIPP, UK Group Flexible Retirement Plan, UK Group Stakeholder and Trustee Investment Plan. These contracts do not contain a with profits investment option except for UK Group Stakeholder and UK Stakeholder under which customers may invest in the UKSMWPF.

The costs of contracts invested in unit linked funds are recovered by deduction of an asset management charge from the unit linked funds. Under Stakeholder contracts, this asset management charge has a specified maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

Under UK SIPP contracts, as well as investing in unit linked funds offered by the SL Insurance Business, policyholders can choose to invest in a wide range of other permitted investments. These other investments are not recognised on the SL Insurance Business' statement of financial position.

UK unit linked investment bonds

Unit linked investment bonds (e.g. Capital Investment Bond) are single premium whole life contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

German unit linked deferred annuity contracts

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts provide a return of premiums guarantee on death and the option to take up an annuity on guaranteed terms They are classified as non-participating insurance contracts. These contracts do not contain a with profits investment option.

German unitised with profits deferred annuity contracts

German unitised with profits deferred annuities contracts were written in the PBF with the participating investment elements being transferred to the GWPF and, to a significantly lesser extent, to the GSMWPF. These contracts were closed to new business in 2015. The death benefit under all of the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the fund value, and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value of contracts invested in the GWPF is subject to guaranteed minimum amounts. In addition, certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors and certain unit prices in the GWPF are guaranteed not to decrease.

The GWPF is operated such that all investment return on assets held in the fund will be distributed to participating policyholders over time subject to deductions of asset management charges and deductions for guarantees.

(ii) Insurance and investment contracts issued before demutualisation and related reinsurance contracts

HWPF participating contract allocations of regular and final bonuses

This section firstly describes the method used by the SL Insurance Business to determine the regular and final bonuses allocated to participating contracts held in the HWPF. It then describes the significant types of insurance and investment contracts held in that fund, the nature of any guarantees provided and significant reinsurance contracts.

As shown in the market risk sensitivity analysis in Note 37, there is no impact on shareholder equity arising from contracts in the HWPF for either of the market movements scenarios. As explained in the limitations of the sensitivity analysis, this is because although shareholders are potentially exposed to the full cost if the assets of the HWPF are insufficient to meet policyholder obligations, the assumption changes given are not severe enough for such an event to occur.

Regular bonuses are declared at the discretion of the SL Insurance Business in accordance with the Principles and Practices of Financial Management (PPFM) of the HWPF for UK business and similar principles for European business and are set at levels which aim to achieve a gradual build-up in guaranteed participating policy benefits whilst not unduly constraining investment freedom and the prospects for final bonuses. In setting these rates, the financial position (both current and projected) of the HWPF is taken into account, and were it necessary, regular bonus rates would be set to zero. Regular bonus rates are set for each relevant class of participating policy and/or internal fund and reflect its characteristics, including any guarantees.

For some contracts, final bonuses may also be paid. These bonuses are not guaranteed and can be withdrawn at any time.

The SL Insurance Business' aim is that, subject to meeting all contractual obligations and maintaining an adequate financial position, payouts on a participating policy (including any final bonus applying) should fairly reflect the experience of the HWPF applicable to such a policy, after any adjustments for smoothing, and any distribution of the residual estate deemed appropriate by the SL Insurance Business.

When setting payout levels, the SL Insurance Business seeks to ensure fair treatment between those participating policyholders who choose to withdraw and those who remain.

Asset shares are used as a tool to determine fair treatment. The calculation of asset shares varies between products, for example calculations can be on the basis of representative policies or on an individual policy basis.

The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. The SL Insurance Business reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

In normal circumstances the SL Insurance Business seeks to offer some smoothing of investment returns to participating policyholders at the time of claims due to maturity for life policies or for pension policies where the SL Insurance Business has no right to reduce benefits as defined in the relevant contractual terms and conditions. The SL Insurance Business may, at its discretion, also provide some smoothing of investment returns for death claims and some types of withdrawal at the time of payment. The SL Insurance Business aims to operate smoothing of investment returns in such a way as to be neutral for participating policyholders as a whole over time. The SL Insurance Business monitors the anticipated cost of smoothing on a regular basis and, in most circumstances, will reflect the costs in payouts and in some circumstances adjust the approach to smoothing.

When calculating asset shares, the SL Insurance Business may, at its discretion, make fair deductions to reflect its assessment of the cost of guarantees. The SL Insurance Business takes an allowance for the assessed costs of guarantees when determining final bonuses payable on claims, calculating policy switch values and calculating surrender and transfer values. These allowances vary between types of policies, reflecting the nature of the guarantees provided. These allowances are kept under review. A deduction is also taken from participating asset shares determined on an expense basis of 0.5% pa as a contribution to the capital of the HWPF.

For policies eligible for a payment under Standard Life's Mortgage Endowment Promise, an additional payment may be made on maturity subject to and in accordance with the terms of the Mortgage Endowment Promise as set out in the Scheme.

UK conventional with profits contracts (no impact on shareholder profits in absence of burnthrough)

Conventional (i.e. non-unitised) with profits contracts consist of single or regular premium endowment, whole life and pension contracts held in the HWPF.

Under endowment and whole life contracts guaranteed benefits are payable on death. Regular bonuses may be added to the guaranteed sum assured over the term of the policy and, in addition, a final bonus may be paid on death and maturity. Certain endowment assurances have minimum surrender value provisions and minimum paid-up values.

Under pension contracts a minimum level of benefit is set at the outset and applies at the date(s) specified in the policy, for example under pure endowment contracts. Regular bonuses may be added to this initial minimum over the term of the policy and, in addition, a final bonus may be paid. Guaranteed annuity options providing for payment of a minimum annuity, in lieu of a cash sum, are available under pure endowment contracts. Under some of these contracts the guarantee applies only at the maturity date. Under other contracts, the option also applies for a specified period preceding the maturity date, in which case the sum assured and bonuses are reduced by specified factors and different guaranteed annuity rates apply.

All conventional with profits contracts are classified as participating insurance contracts.

UK and Ireland unitised with profits pension contracts

This class of business comprises single or regular premium contracts held in the HWPF under which a percentage of the premium is allocated to units on a participating basis. Such contracts include hybrid contracts (see accounting policy 1(g)) resulting in the unitised with profits investment elements being classified as participating investment contracts, although there are some contracts that are classified as participating insurance contracts, for example those with guaranteed minimum pensions. The major unitised with profits pension contracts include Individual Personal Pension Plans, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed either that the unit price will rise at an annual rate of at least 4% per year or that the unit price will not fall, and, that there will be no unit price adjustment (UPA) at specified retirement dates or death
- Certain Trustee Investment Plan contracts where, subject to specified conditions and limits, it is guaranteed that there will be no unit price adjustment (UPA) when units are encashed.

UK and Ireland unitised with profits life contracts

Unitised with profits life business comprises single or regular premium endowment and whole life contracts held in the HWPF under which a percentage of the premium is allocated to units on a participating basis. The death benefit under regular premium contracts is the greater of the bid value of units allocated and sum assured under the contract. Some contracts also contain critical illness cover providing for payment of a critical illness sum assured on diagnosis of certain defined serious illnesses. These contracts, principally Homeplan, With Profits Bonds and Versatile Investment Plans, are classified as participating insurance contracts.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed on death or maturity either that the unit price will rise at an annual rate of at least 3% a year or that the unit price will not fall, and, that there will be no UPA at maturity
- For bonds it is guaranteed that no UPA will apply on regular withdrawals up to certain specified limits.

Under contracts effected in connection with house purchase the death benefit is guaranteed. Under other regular premium contracts, at any time after the first ten years, the SL Insurance Business may review the status of the contract and, if it deems it necessary, the sum assured may be reduced, within the limits permitted.

Under some contracts affected in connection with house purchase, provided the original contract is still in force the following options can normally be exercised at any time before the 55th birthday of the life assured:

- Future insurability option under which a new contract can be effected on then current premium rates, in connection with a further loan, up to the level of life and basic critical illness cover available on the original contract, without any further evidence of health
- Term extension option on then current premium rates under which the term of the contract may be extended by a whole number of years if the lender agrees to extend the term of the loan

German unitised with profits contracts

Unitised with profits German contracts held in the HWPF mainly consist of endowment assurances and deferred annuities, under which a percentage of each premium is applied to purchase units on a participating basis. The death benefit under endowment assurances is the greater of the sum assured on death or 105% of the current surrender value. The death benefit under deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the fund value and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value, and for certain contracts the surrender benefits, are subject to guaranteed minimum amounts. For some participating unitised policies it is guaranteed that there will be no UPA on claims on or after the surrender option date. Certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors. In addition certain unit prices in the HWPF are guaranteed not to decrease.

UK and Ireland unit linked pension contracts

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds held in the PBF.

Such contracts include hybrid contracts (see accounting policy (g)) resulting in the unit linked investment elements being classified as non-participating investment contracts. The major unit linked pension contracts include Individual Personal Pension Plans, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF. Under Stakeholder contracts, this asset management charge has a maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

UK and Ireland unit linked life contracts

This class of business comprises principally unit linked investment bonds (e.g. Capital Investment Bonds), classified as non-participating investment contracts and the unit linked investment element of Home plan contracts, classified as non-participating insurance contracts. No significant guarantees, other than the guaranteed death benefit on Home plan contracts, are provided under these contracts.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF.

UK and Ireland annuity-in-payment contracts (no impact on shareholder profits in absence of burn through)

This class of business consists of the same type of contracts described in (b) (i) above and also includes the With Profit Pension Annuity (WPPA) under which changes to the level of annuity are based on a declared rate of return but reductions in the level of the annuity are limited. These contracts are classified as non-participating insurance contracts, except for the WPPA which is classified as a participating insurance contract.

The SL Insurance Business has reinsured both the longevity and market risk arising on a portfolio of annuity-in-payment contracts held within the HWPF. In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. In respect of this arrangement the SL Insurance Business holds a ring fenced pool of assets within the HWPF. See Note 34 on credit exposure and Note 5 – Expenses under arrangements with reinsurers for further details of the deposit back. A floating charge over the ring fenced pool of assets has been granted to the reinsurer. The reinsurance asset recognised in relation to this arrangement is £4,645m (2016: £5,190m; 2015: £5,258m). The longevity risk on certain non-participating annuity-in-payment contracts held in the HWPF has been transferred to the PBF. The market risk on certain annuities has been transferred to the PBF. For those annuities in payment which increase at a predefined rate the total liability at 31 December 2017 is £2,755m (2016: £2,951m; 2015: £2,869m) and this represents approximately 33% (2016: 32%; 2015: 33%) of the total liability for UK annuity in payment contracts held within the HWPF.

The total liability at 31 December 2017 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,806m (2016: £1,983m; 2015: £1,811m) and this represents approximately 22% (2016: 22%; 2015: 21%) of the total liability for UK annuity in payment contracts held within the HWPF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall.

UK other non-participating contracts

This class of business consists primarily of deferred annuities that provide guaranteed annuity payments from the retirement age associated with the relevant pension plan. The payments depend on the survival of a life or lives with or without a guarantee period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in UK RPI. These contracts are classified as non-participating insurance contracts

2. Operating profit

The following table is an analysis of Standard Life's Insurance Business operating profit for the years ended 31 December 2017, 2016 and 2015.

	31 December 2017		
	2017	2016	2015
		(£m)	
Fee based revenue	790	748	704
Spread/risk margin	148	110	129
Operating income	**938**	**858**	**833**
Operating expenses	(611)	(548)	(550)
Capital management	39	53	43
Operating profit before adjusting items	**366**	**363**	**326**

The following table reconciles Standard Life's Insurance Business' operating profit before adjusting items to IFRS profit after tax for the years ended 31 December 2017, 2016 and 2015:

	2017	2016	2015
		(£m)	
Operating profit before adjusting items	**366**	**363**	**326**
Adjusted for the following items:			
Investment return variances and economic assumption changes on long-term business	135	50	8
Variance on owners' funds	(3)	26	(7)
Provision for annuity sales practices	(100)	(175)	—
Other	(10)	(12)	(103)
Profit before finance costs attributable to owners	**388**	**252**	**224**
Finance costs attributable to owners	(20)	(20)	(20)
Profit attributable to Non-controlling interest – other	24	45	45
Profit before tax attributable to equity holders profits	**392**	**277**	**249**
Shareholder tax	(48)	(38)	(40)
Profit after tax attributable to holders of Net Investment	**344**	**239**	**209**

3. Investment return

	2017	2016	2015
		(£m)	
Financial instruments other than those at FVTPL			
Interest income			
Cash and cash equivalents	48	79	82
Loans	36	22	22
Other	2	6	7
	86	107	111
Impairment losses on subsidiaries	—	—	—
Foreign exchange losses on instruments other than at FVTPL	(73)	(80)	21
Gains/(Losses) on financial instruments other than those at FVTPL	**13**	**27**	**132**
Financial instruments at FVTPL			
Dividend income	2,225	2,033	1,960
Gains/(losses) on financial instruments held at FVTPL[(1)]			
Equity securities and interests in pooled investment funds	8,686	9,911	1,315
Debt securities	1,287	6,914	(222)
Derivative financial instruments	(354)	(3,702)	1,168
Loans	26	9	3
Assets held for sale	(2)	1	—
	9,643	13,133	2,264
Gains on financial instruments held at FVTPL	**11,868**	**15,166**	**4,224**
Investment property			
Rental income	430	369	405
Net fair value gains/(losses) on investment property	490	(141)	387
	920	228	792
Total investment return	**12,801**	**15,421**	**5,148**

Note:

(1) Gains/(losses) including interest income, excluding dividend income

4. Fee income

	Note	2017	2016	2015
			(£m)	
Fee income on investment contracts		589	569	559
Fee income deferred during the year	29	(11)	(14)	(24)
Amortisation of deferred income	29	51	59	60
Other fee income		4	5	5
Total fee income		**633**	**619**	**600**

The historical financial information excludes income of £8m (2016: £6m; 2015: £29m) that the future equivalents of will be recognised by the business going forward, as they relate to activities historically performed by Standard Life Client Management Limited ("SLCM") that will be transferring to Phoenix as part of the Transaction. The SLCM legal entity is not transferring to Phoenix as part of the Transaction.

5. Expenses under arrangements with reinsurers

	2017	2016	2015
		(£m)	
Interest payable on deposits from reinsurers	21	31	34
Premium Adjustments	181	478	8
Expenses under arrangements with reinsurers	202	509	42

The SL Insurance Business has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within its Heritage With Profits Fund. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the SL Insurance Business. Interest is payable on the deposit at a floating rate. The SL Insurance Business maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the SL Insurance Business from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the SL Insurance Business is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to these expenses under arrangements with reinsurers.

6. Administrative expenses

	Note	2017	2016	2015
			(£m)	
Commission expenses		146	152	169
Other interest expenses		4	3	7
Staff costs and other employee related costs	7	161	164	221
Impairment losses reversed on property and equipment	13	(4)	—	(1)
Impairment losses on intangible assets	10	31	1	4
Amortisation of intangible assets	10	15	15	8
Investment management expenses		168	178	182
Other		523	496	554
		1,044	1,009	1,144
Acquisition costs deferred during the year	11	(46)	(49)	(70)
Amortisation of deferred acquisition costs	11	77	85	85
Total administrative expenses		1,075	1,045	1,159

The historical financial information of the SL Insurance business includes costs of £28m (2016: £27m; 2015: £36m) the future equivalents of which will not be incurred by the business going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group.

7. Staff costs and other employee related costs

The majority of staff who manage the affairs of the SL Insurance Business are employed by SLESL, another subsidiary of Standard Life plc.

	Note	2017	2016	2015
			(£m)	
The aggregate remuneration payable in respect of employees was:				
Wages and salaries		155	151	164
Social security costs		17	16	18
Other pension costs:				
Defined benefit plan		(26)	(17)	26
Defined contribution plan		15	14	13
Total staff costs and other employee related costs	6	**161**	**164**	**221**

	2017	2016	2015
The average yearly number of staff employed by the SL Insurance Business during the year was:			
United Kingdom	2,711	2,599	2,809
International	474	497	533
Total average number of staff employed	**3,185**	**3,096**	**3,342**

The staff costs recharged to the SL Insurance Business will be transferred as part of the Transaction perimeter and are included above.

8. Tax expense

The total tax expense is attributed as follows:

	2017	2016	2015
		(£m)	
Tax expense attributable to policyholders' returns	159	233	80
Tax expense attributable to shareholders' profits	48	38	40
Total tax expense	207	271	120

The standard UK corporation tax rate for the accounting period is 19.25%. The UK corporation tax rate will reduce to 17% from 1 April 2020. These future rate changes have been taken into account in the calculation of the UK deferred tax balance at 31 December 2017.

(a) *Tax expense*

	Note	2017	2016	2015
			(£m)	
Current tax:				
United Kingdom		192	209	102
International		9	14	9
Adjustment to current tax expense in respect of prior years		5	6	7
Total current tax		**206**	**229**	**118**
Deferred tax:				
Deferred tax expense arising from the current year		36	31	4
Adjustment to deferred tax expense in respect of prior years		(35)	11	(2)
Total deferred tax	14	**1**	**42**	**2**
Total tax expense		**207**	**271**	**120**
Attributable to shareholders' profits		**48**	**38**	**40**

Unrecognised losses of nil were used to reduce current tax expense (2016: £1m; 2015: £1m).

Unrecognised losses of nil were used to reduce deferred tax expense (2016: £7m; 2015: £3m).

(b) *Tax relating to components of other comprehensive income*

	2017	2016	2015
		(£m)	
Tax on actuarial (losses)/gain on defined benefit pension schemes	(6)	2	—
Tax relating to each component of comprehensive income	**(6)**	**2**	**—**

(c) Reconciliation of tax expense

	2017	2016	2015
		(£m)	
Profit before tax	**551**	**510**	**329**
Tax at 2017:19.25% (2016: 20%; 2015: 20.25%)	**106**	**102**	**67**
Policyholder tax (net of tax at UK standard rate)	128	186	64
Permanent differences	(11)	(15)	(10)
Tax effect of accounting for non-controlling interest	(5)	(9)	(9)
Temporary timing differences	—	(1)	—
Different tax rates	(6)	(1)	(9)
Adjustment to current tax expense in respect of prior years	5	6	7
Recognition of previously unrecognized tax credit	—	(8)	—
Deferred tax not recognised	—	—	15
Adjustment to deferred tax expense in respect of prior years	(35)	11	(2)
Write down (reversal) of DT assets	26	—	—
Other	(1)	—	(3)
Total tax expense for the year	**207**	**271**	**120**

The ability to value losses and other tax assets will also affect the actual tax charge. The write down of deferred tax asset of £26m relates to a reduction in the valuation of the German tax reserves primarily due to the expected impact of Brexit restructuring and adjustments to our transfer pricing methodology. The adjustment to deferred tax expense in respect of prior years of £35m relates mainly to a change in valuation of German temporary differences due to the changed economics of that business leading to adjustments to our transfer pricing methodology. All these items are expected to be non-recurring.

9. Dividends and appropriations

The directors of SLAL have proposed a final dividend for the year of 19 pence per ordinary share (2016: 11.2 pence) totalling £312m (2016: £180; 2015: £170m). There was no interim dividend paid for 2017 (2016: nil; 2015: nil).

An appropriation of £34m (2016: £34m; 2015: £34m) was paid to Standard Life Aberdeen plc in the year in respect of the sterling subordinated guaranteed bonds.

10. Intangible assets

	Note	2017	2016	2015
			(£m)	
Gross amount				
At 1 January		**168**	**129**	**96**
Additions		36	44	34
Disposals		—	(7)	—
Foreign exchange adjustment		1	2	(1)
At 31 December		**205**	**168**	**129**
Accumulated amortisation				
At 1 January		(73)	(63)	(52)
Amortisation charge for the year	6	(15)	(15)	(8)
Impairment losses recognised	6	(31)	(1)	(4)
Amortisation on disposal		—	7	—
Foreign exchange adjustment		(1)	(1)	1
At 31 December		**(120)**	**(73)**	**(63)**
Carrying amount at 1 January		**95**	**66**	**43**
Carrying amount at 31 December		**85**	**95**	**66**

Intangible assets consist wholly of internally generated software. Of the total carrying value above, £37m relates to intangible assets not yet ready for use (2016: £43m; 2015: £25m).

Of the SL Insurance Business' intangible assets, the majority of additions relates to the Evolve IT Project, which is being undertaken to modernise and simplify our products and applications. In 2017 an impairment charge of £31m (2016 and 2015: nil) was recognised in respect of the intangible asset that was being built to allow a move away from the existing mainframe. Following technical challenges in this part of the project we discontinued this part of the project and a full impairment of that intangible asset has been recognised. The carrying value of the remaining Evolve IT intangible asset at 31 December 2017 is £26m (2016: £29m; 2015: £5m) and the amortisation period of the assets will be between 6 and 10 years.

The intangible assets do not include intangible assets of SLESL which will be transferred into the SL Insurance Business as part of the Transaction as the list of such assets was not finalised at the time of preparation of this historical financial information.

11. Deferred acquisition costs

	Note	2017	2016	2015
			(£m)	
At 1 January		**623**	**615**	**657**
Additions during the year	6	46	49	70
Amortisation charge	6	(77)	(85)	(85)
Impairment charge		—	—	(14)
Foreign exchange adjustment		14	44	(13)
At 31 December		**606**	**623**	**615**

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £533m (2016: £545m; 2015: £533m).

Included in deferred acquisition costs above are costs deferred on investment contracts (known as deferred origination costs) amounting to £350m (2016: £379m; 2015: £407m).

12. Investment property

	2017	2016	2015
		(£m)	
At 1 January	**6,653**	**8,437**	**8,087**
Additions – acquisitions	2,117	240	1,558
Additions – subsequent expenditure	117	105	240
Net fair value (losses)/ gains	490	(141)	387
Foreign exchange adjustment	12	44	(8)
Disposals	(526)	(1,827)	(1,722)
Reclassification between investment property and debt securities	(319)	—	—
Reclassified as held for sale during the year	(170)	(191)	(123)
Other	—	(14)	18
At 31 December	**8,374**	**6,653**	**8,437**
The fair value of investment property can be analysed as:			
Freehold	6,689	4,933	6,344
Long leasehold	1,685	1,720	2,027
Short leasehold	—	—	66
	8,374	6,653	8,437

The rental income arising from investment property during the year amounted to £430m (2016: £369m; 2015: £405m), which is included in investment return (set out in Note 3). Direct operating expenses (included within other administrative expenses) arising in respect of such property during the year amounted to £53m (2016: £44m; 2015: £47m).

The methods and assumptions used to determine fair value for investment property and property under development are discussed in Note 36 – Fair value of assets and liabilities. All property valuations are provided by independent qualified professional valuers at 31 December 2017 (31 December 2016; 31 December 2015) or as at a date that is not more than three months before 31 December 2017 (31 December 2016; 31 December 2015). Where valuations have been undertaken at dates prior to the end of the reporting period adjustments are made where appropriate to reflect the impact of changes in market conditions between the date of these valuations and the end of the reporting period.

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment property were as follows:

	2017	2016	2015
		(£m)	
Not later than one year	399	323	396
Later than one year and no later than five years	1,287	1,042	1,290
Later than five years	3,127	3,433	3,787
Total operating lease receivables	**4,813**	**4,798**	**5,473**

13. Property and equipment

	Note	Owner occupied property	Equipment	Total
			(£m)	
Cost or valuation				
At 1 January 2017		7	4	11
Impairment losses reversed	6	4	—	4
Reclassified as held for sale during the year		(4)	—	(4)
At 31 December 2017		**7**	**4**	**11**
Accumulated depreciation				
At 1 January 2017		**—**	**(4)**	**(4)**
At 31 December 2017		**—**	**(4)**	**(4)**
Carrying amount at 31 December 2017		**7**	**—**	**7**

	Note	Owner occupied property	Equipment	Total
			(£m)	
Cost or valuation				
At 1 January 2016		**31**	**4**	**35**
Additions		1	—	1
Disposals		(22)	—	(22)
Revaluations	25	5	—	5
Reclassified as held for sale during the year		(8)	—	(8)
At 31 December 2016		**7**	**4**	**11**
Accumulated depreciation				
At 1 January 2016		**—**	**(4)**	**(4)**
At 31 December 2016		**—**	**(4)**	**(4)**
Carrying amount at 31 December 2016		**7**	**—**	**7**

	Note	Owner occupied property	Equipment	Total
			(£m)	
Cost or valuation				
At 1 January 2015		**118**	**4**	**122**
Disposals	6	(92)	—	(92)
Impairment losses reversed	25	1	—	1
Revaluations		4	—	4
At 31 December 2015		**31**	**4**	**35**
Accumulated depreciation				
At 1 January 2015		**—**	**(4)**	**(4)**
At 31 December 2015		**—**	**(4)**	**(4)**
Carrying amount at 31 December 2015		**31**	**—**	**31**

If owner occupied property was measured using the cost model, the carrying amounts would be £8m (2016: £25m; 2015: £48m). Where the expected residual value of owner occupied property is in line with the current fair value, no depreciation is charged. Equipment primarily consists of computer equipment.

The methods and assumptions used to value owner occupied property are the same as those for investment property set out in Note 12 – Investment property and are discussed in Note 36 – Fair value of assets and liabilities.

The property, plant and equipment do not include property, plant and equipment of SLESL which will be transferred into the SL Insurance Business as part of the Transaction as the list of such assets was not finalised at the time of preparation of this historical financial information.

14. Tax assets and liabilities

	Note	2017	2016	2015
			(£m)	
Current tax recoverable	19	165	158	158
Deferred tax assets		11	16	7
Total tax assets		**176**	**174**	**165**
Current tax liabilities		116	81	88
Deferred tax liabilities		235	231	176
Total tax liabilities		**351**	**312**	**264**

There are no current tax assets or liabilities expected to be recoverable or payable in more than 12 months (2016 & 2015: £nil).

(a) Recognised deferred tax

	Note	2017	2016	2015
			(£m)	
Deferred tax assets comprise:				
Actuarial liabilities		—	—	5
Losses carried forward		6	8	6
Depreciable assets		5	34	31
Deferred income		8	12	20
Insurance related items		—	—	5
Tax acquisition expenses		6	5	7
Temporary timing differences		1	20	15
Other		—	—	3
Gross deferred tax assets		**26**	**79**	**92**
Less: offset against deferred tax liabilities		(15)	(63)	(85)
Net deferred tax assets		**11**	**16**	**7**
Deferred tax liabilities comprise:				
Unrealised gains on investment securities		193	184	146
Deferred acquisition costs		53	104	108
Insurance related items		4	5	6
Temporary timing differences		—	1	1
Gross deferred tax liabilities		**250**	**294**	**261**
Less: offset against deferred tax assets		(15)	(63)	(85)
Net deferred tax liabilities		**235**	**231**	**176**
Movements in deferred tax assets/ (liabilities) comprise:				
At 1 January		**(215)**	**(169)**	**(165)**
Amounts debited to net profit	8	(1)	(42)	(2)
Amounts (charged)/credited directly to equity		(6)	2	—
Exchange differences		(2)	(6)	(2)
At 31 December		**(224)**	**(215)**	**(169)**

Deferred tax assets and liabilities are netted off to the extent that legal offset is available under local tax law.

A deferred tax asset of £6m (2016: £8m; 2015: £6m) has been recognised in respect of the losses of the overseas branches and subsidiaries of SLAL. Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods.

The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans. The losses do not have an expiry date.

(b) Unrecognised deferred tax

Due to uncertainty regarding recoverability, deferred tax has not been recognised in respect of the following assets/ (liabilities):

- Tax reserves of the German branch of the SL Insurance Business of £102m (2016: £20m; 2015: £26m).
- Unrealised investment and trading losses of £78m (2016: £88m; 2015: £163m).
- Irish pension deficit of £42m (recognised in 2016 and 2015).

15. Financial investments

	Note	2017	2016	2015
			(£m)	
Financial investments at FVTPL:				
Classified as held for trading:				
Derivative financial assets	17	3,026	3,517	2,441
Total financial investments designated as held for trading		**3,026**	**3,517**	**2,441**
Designated upon recognition:				
Equity securities and interests in pooled investment funds	36	96,067	90,619	76,370
Debt securities	36	59,457	64,633	64,227
Total financial investments designated upon initial recognition		155,524	155,25	140,597
Total financial investments at FVTPL		158,550	158,769	143,038
Loans and receivables:				
Loans	16	105	314	791
Receivables and other financial assets	18	616	857	1,155
Cash and cash equivalents	21	8,677	7,299	9,084
Total loans and receivables		9,398	8,470	11,030
Total financial investments		167,948	167,239	154,068

The amount of debt securities expected to be recovered after more than 12 months is £49,157m (2016: £52,936m; 2015: £45,672m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

16. Loans

	Note	2017	2016	2015
			(£m)	
Loans comprise:				
Loans secured by mortgages	36	57	72	87
Loans secured on policies		2	2	3
Deposits with banks in excess of 3 months		46	240	701
Total loans	15	**105**	**314**	**791**

Loans with variable rates and fixed interest rates are £53m and £52m respectively (2016: £72m and £242m; 2015: £120m and £671m respectively). Loans that are expected to be recovered after more than 12 months are £60m (2016: £88m; 2015: £138m).

17. Derivative financial instruments

The SL Insurance Business uses derivative financial instruments in order to match contractual liabilities, to reduce the risk from potential movements in foreign exchange rates, equity indices, property indices and interest rates, to achieve efficient portfolio management or for the transfer of risk between business units.

All derivative instruments have been classified as held for trading and are not part of a designated hedge relationship.

The following table provides an analysis of derivative instruments:

	2017			2016			2015		
	Contract amount	Fair value assets	Fair value liabilities	Contract amount	Fair value assets	Fair value liabilities	Contract amount	Fair value assets	Fair value liabilities
					(£m)				
Equity derivatives:									
Futures	13,186	155	111	5,879	32	88	12,652	18	129
Options	7,360	760	36	3,389	571	8	4,752	661	3
Variance swaps	13	44	50	17	27	22	28	25	20
Total return swaps	710	4	16	2,311	3	38	3,652	18	50
Interest rate derivatives:									
Interest rate swaps	64,904	685	214	22,378	761	147	81,010	748	458
Interest rate floors	40	6	—	44	8	—	63	11	—
Swaptions	6,508	834	6	5,971	1,098	—	7,134	704	5
Foreign exchange derivatives:									
Forwards	34,356	323	229	40,649	690	495	30,394	202	482
Options	—	—	—	—	—	—	1,276	—	11
Other derivatives:									
Inflation rate swaps	5,278	37	46	1,995	26	40	1,100	5	26
Credit default swaps	967	62	10	1,256	55	17	1,619	36	3
Bond derivatives:									
Futures	25,065	116	50	34,006	246	95	8,861	13	52
Total derivative financial instruments held for trading	**158,387**	**3,026**	**768**	**117,895**	**3,517**	**950**	**152,541**	**2,441**	**1,239**

Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

	31 December 2017						
	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
Cash inflows							
Derivative financial assets	18,833	418	311	146	203	504	20,415
Derivative financial liabilities	10,571	4	—	—	3	—	10,578
Total cash inflows	**29,404**	**422**	**311**	**146**	**206**	**504**	**30,993**
Cash outflows							
Derivative financial assets	(17,855)	(26)	(20)	(15)	—	—	(17,916)
Derivative financial liabilities	(11,014)	(149)	(70)	(64)	(44)	(47)	(11,388)
Total cash outflows	**(28,869)**	**(175)**	**(90)**	**(79)**	**(44)**	**(47)**	**(29,304)**
Net derivative financial instruments cash flows	**535**	**247**	**221**	**67**	**162**	**457**	**1,689**

	31 December 2016						
	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
Cash inflows							
Derivative financial assets	22,742	446	355	171	221	743	24,678
Derivative financial liabilities	13,169	11	—	—	1	—	13,181
Total cash inflows	**35,911**	**457**	**355**	**171**	**222**	**743**	**37,859**
Cash outflows							
Derivative financial assets	(21,613)	(2)	(4)	(16)	(11)	—	(21,646)
Derivative financial liabilities	(13,916)	(43)	(23)	(14)	(32)	(146)	(14,174)
Total cash outflows	**(35,529)**	**(45)**	**(27)**	**(30)**	**(43)**	**(146)**	**(35,820)**
Net derivative financial instruments cash flows	**382**	**412**	**328**	**141**	**179**	**597**	**2,039**

	31 December 2015						
	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
Cash inflows							
Derivative financial assets	9,215	453	469	86	96	503	10,822
Derivative financial liabilities	19,663	10	3	—	—	2	19,679
Total cash inflows	**28,878**	**463**	**472**	**86**	**96**	**505**	**30,501**
Cash outflows							
Derivative financial assets	(8,761)	(3)	(15)	(32)	(490)	—	(9,302)
Derivative financial liabilities	(20,341)	(106)	(44)	(24)	(33)	(494)	(21,043)
Total cash outflows	**(29,102)**	**(109)**	**(59)**	**(56)**	**(523)**	**(494)**	**(30,345)**
Net derivative financial instruments cash flows	**(224)**	**354**	**413**	**30**	**(427)**	**11**	**156**

Cash inflows and outflows are presented on a net basis where the SL Insurance Business is required to settle this net.

18. Receivables and other financial assets

	Note	2017	2016	2015
			(£m)	
Amounts receivable on direct insurance business		71	82	83
Amounts receivable on reinsurance contracts		2	—	1
Outstanding sales of investment securities		115	181	50
Cancellation of units awaiting settlement		36	85	100
Accrued income		127	138	134
Due from related parties		36	56	100
Property related receivables		132	134	93
Collateral pledged		15	23	435
Other		82	158	159
Receivables and other financial assets	15	**616**	**857**	**1,155**

The carrying amounts disclosed above reasonably approximate the fair values as at the year end. The amount of receivables and other financial assets expected to be recovered after more than 12 months is £69m (2016: £68m; 2015: £57m).

19. Other assets

	Note	2017	2016	2015
			(£m)	
Current tax recoverable	14	165	158	158
Prepayments		18	20	19
Other		97	47	52
Total other assets		280	225	229

The amount of other assets expected to be recovered after more than 12 months is £nil (2016: £nil; 2015: £15m).

20. Assets and liabilities held for sale

The assets held for sale at 31 December 2017 related to properties for which contracts had been exchanged during 2017 but the sales had not completed.

	2017	2016	2015
Assets held for sale			
Property	156	236	87
Total assets held for sale	156	236	87

There are no financial liabilities held for sale at 31 December 2017 (2016 and 2015: nil).

21. Cash and cash equivalents

	Note	2017	2016	2015
			(£m)	
Cash at bank and in hand		643	495	585
Money at call, term deposits and debt investments with less than three months to maturity from acquisition		8,034	6,804	8,499
Total cash and cash equivalents	15	8,677	7,299	9,084

	Note	2017	2016	2015
			(£m)	
Cash and cash equivalents		8,677	7,299	9,084
Bank overdrafts	30	(8)	(28)	(49)
Total cash and cash equivalents for statement of cash flows		8,669	7,271	9,035

Cash in hand is non-interest bearing. All other cash and cash equivalents are subject to variable interest rates.

22. Net Parent Investment

As the SL Insurance Business is not a separate legal group and has not previously prepared standalone financial statements, it is not meaningful to disclose share capital or an analysis of reserves. The net assets of the SL Insurance Business are represented by the cumulative investment of the SL Group in the SL Insurance Business and disclosed as Net Parent Investment. Subordinated notes issued by the SL Insurance Business and held by the SL Group are disclosed separately (see Note 23).

In 2017, 13,000,000 (2016: 34,603,200; 2015: 31,800,000) £0.01 ordinary shares of SLAL were issued at a price of £1 each. This resulting proceeds of £13m (2016: £34m; 2015: £32m) were recorded within Net parent Investment.

23. Non-controlling interest – Subordinated notes

The carrying value of the 6.75% £500,000,000 subordinated notes included in non-controlling Interests at the year-end is as follows:

	2017	2016	2015
		(£m)	
Principal	486	486	486
Accrued interest	16	16	16
Total	502	502	502

The subordinated guaranteed bonds, issued to Standard Life plc, are perpetual securities and as such have no fixed redemption date. However, the bonds are redeemable at par at the option of Standard Life Assurance Limited on 12 July 2027 and on every fifth anniversary thereafter. If the bonds are not redeemed on 12 July 2027, the interest rate payable will be reset to 2.85% over the gross redemption yield on the appropriate 5 year benchmark gilt on the reset date. SLAL can elect to defer the payment of the interest on the bonds indefinitely. Interest will accrue on any deferral at the then current rate of interest on the bonds.

In accordance with the requirements of IAS 32 *Financial Instruments: Presentation*, the subordinated guaranteed bonds are classified as non-shareholders' equity. Interest and accrued interest on any deferral are treated as profit attributable to non-shareholders and amounted to £34m (2016: £34m; 2015: £34m).

24. Non-controlling interest – Other

Included in non-controlling interests – other ordinary shares of £297m (2016: £302m; 2015: £290m), are non-controlling interests of Standard Life Private Equity Trust plc (SLPET) of £278m (2016: £260m; 2015 £217m) which is considered material to the SL Insurance Business. Non-controlling interests own 46% (2016: 46%; 2015 47%) of the voting rights of SLPET. The profit allocated to non-controlling interest of SLPET for the year ended 31 December 2017 is £24m (2016: £49m; 2015: £35m). Dividends paid to non-controlling interests of SLPET during the year ended 31 December 2017 were £7m (2016: £4m; 2015: £5m).

Summarised financial information for SLPET prior to intercompany eliminations is provided in the following table. The summarised financial information is for the years ended 30 September 2017, 2016 and 2015 which is SLPET's financial reporting date and is considered indicative of the interest that non-controlling interests of SLPET have in SL Insurance Business activities and cash flows. The financial statements of SLPET for the years ended 30 September 2017, 2016 and 2015 have been adjusted for market movements and any other significant events or transactions for the three months to 31 December for the purposes of combining in to the SL Insurance Business combined financial statements.

	SLPET 30 September		
	2017	2016	2015
		(£m)	
Statement of financial position:			
Total assets	600	540	439
Total liabilities	1	7	—
Income statement:			
Revenue	89	119	53
Profit after tax	81	107	47
Total comprehensive income	81	107	47
Cash flows:			
Cash flows from operating activities	2	5	8
Cash flows from investing activities	1	73	22
Cash flows from financing activities	(15)	(13)	(20)
Net increase in cash equivalents	**(12)**	**65**	**10**

There are no protective rights of non-controlling interests which significantly restrict SL Insurance business ability to access or use the assets and settle the liabilities of the SL Insurance Business.

25. Insurance contracts, investment contracts and reinsurance contracts

	Note	2017	2016	2015
			(£m)	
Non-participating contract liabilities				
Non-participating insurance contracts	25(a)	22,747	22,919	20,828
Non-participating investment contracts	25(b)	104,383	101,997	92,824
		127,130	124,916	113,651
Participating contract liabilities				
Participating insurance contracts	25(a)	14,660	15,151	14,283
Participating investment contracts	25(a)	15,314	15,537	14,716
Unallocated divisible surplus	25(d)	603	580	661
		30,577	31,268	29,660

(a) The movement during the year in insurance contract liabilities, participating investment contract liabilities and reinsurance assets is as follows:

	Participating insurance contract liabilities	Non participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurers' share of liabilities (reinsurance assets)	Net 2017
			(£m)			
At 1 January 2017	**15,151**	**22,919**	**15,537**	**53,607**	**(5,388)**	**48,219**
Expected change	(896)	(903)	(1,033)	(2,832)	397	(2,435)
Methodology/modelling changes	(58)	12	51	5	(2)	3
Effect of changes in:						
Economic assumptions	(37)	331	79	373	8	381
Non-economic assumptions	(65)	(628)	6	(687)	155	(532)
Effect of:						
Economic experience	125	83	572	780	3	783
Non-economic experience	15	19	39	73	6	79
New business	—	863	33	896	—	896
Total change in contract liabilities	**(916)**	**(223)**	**(253)**	**(1,392)**	**567**	**(825)**
Foreign exchange adjustment	425	51	30	506	(1)	505
At 31 December 2017	**14,660**	**22,747**	**15,314**	**52,721**	**(4,822)**	**47,899**

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques.

Non-economic assumptions net of reinsurance decrease of £138m (2016: £ 29 m; 2015: £ 84 m) primarily relates to changes in mortality assumptions for non-participating insurance contract liabilities.

Economic assumptions reflects changes in fixed income yields, leading to higher valuation interest rates overall for non-participating business, and other market movements.

Following demutualisation, it is necessary to recognise the residual estate in the HWPF as a liability within participating contract liabilities, since this will in due course be distributed to existing HWPF policyholders if it is not otherwise required to meet liabilities chargeable to the HWPF in accordance with the Scheme of Demutualisation (the Scheme). The movement for the year therefore includes the movement in the residual estate.

	Participating insurance contract liabilities	Non participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurers' share of liabilities (reinsurance assets)	Net 2016
			(£m)			
At 1 January 2016	**14,283**	**20,828**	**14,716**	**49,827**	**(5,504)**	**44,323**
Expected change	(1,334)	(736)	(881)	(2,951)	374	(2,577)
Methodology/modelling changes	(45)	7	3	(35)	47	12
Effect of changes in:						
Economic assumptions	(465)	2,269	195	1,999	(385)	1,614
Non-economic assumptions	(23)	(442)	47	(418)	43	(375)
Effect of:						
Economic experience	1,193	41	1,425	2,659	41	2,700
Non-economic experience	88	3	(106)	(15)	6	(9)
New business	—	791	34	825	—	825
Total change in contract liabilities	**(586)**	**1,933**	**717**	**2,064**	**126**	**2,190**
Foreign exchange adjustment	1,454	158	104	1,716	(10)	1,706
At 31 December 2016	**15,151**	**22,919**	**15,537**	**53,607**	**(5,388)**	**48,219**

	Participating insurance contract liabilities	Non participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurers' share of liabilities (reinsurance assets)	Net 2015
			(£m)			
At 1 January 2015	**15,397**	**21,517**	**15,191**	**52,105**	**(6,033)**	**46,072**
Expected change	(1,042)	(873)	(902)	(2,817)	388	(2,429)
Methodology/modelling changes	17	26	(22)	21	3	24
Effect of changes in:						
Economic assumptions	105	(376)	(17)	(288)	140	(148)
Non-economic assumptions	(226)	(388)	182	(432)	8	(424)
Effect of:						
Economic experience	315	8	152	475	14	489
Non-economic experience	107	29	142	278	10	288
New business	37	932	27	996	—	996
Total change in contract liabilities	**(687)**	**(642)**	**(438)**	**(1,767)**	**563**	**(1,204)**
Foreign exchange adjustment	(427)	(47)	(37)	(511)	(34)	(545)
At 31 December 2015	**14,283**	**20,828**	**14,716**	**49,827**	**(5,504)**	**44,323**

Non participating insurance contracts – Principal assumptions

For non-participating insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. These assumptions are determined as appropriate estimates at the date of valuation. The basis is considered prudent in each aspect. In particular, options and guarantees have been provided for on prudent bases.

The principal assumptions for the main UK non-participating insurance contracts are as follows:

Valuation interest rates

The valuation interest rates used are determined in accordance with the Prudential Regulation Authority's Integrated Prudential Sourcebook that existed at 31 December 2015. The process used to determine the valuation interest rates used in the calculation of the liabilities comprises three stages: determining the current yield on the assets held after allowing for risk and tax, hypothecating the assets to various types of policy and determining the discount rates from the hypothecated assets.

For corporate bonds, a deduction is made for the risk of default which varies by the quality of asset and the credit spread at the valuation date. The yield for each category of asset is taken as the average adjusted yield weighted by the market value of each asset in that category except for UK and Ireland annuity business and German non-participating insurance business within the PBF where the internal rate of return of the assets backing the liabilities is used. The valuation interest rates used are:

	2017	2016	2015
		(%)	
Non-participating			
1. Business held within the PBF Annuities			
Individual/group			
life	1.96	2.06	3.05
pensions	1.96	2.06	3.05
linked to RPI	(1.53)	(1.55)	(0.47)
2. Business held within the HWPF Annuities			
Individual/group			
Non-linked			
life	0.45	0.15	2.30
pensions: reinsured externally	1.50	1.55	2.35
pensions: not reinsured externally	1.15	1.15	2.80
deferred annuities	1.15	1.15	2.80
Linked to RPI			
reinsured externally	(1.50)	(1.85)	(0.60)
not reinsured externally	(2.00)	(2.10)	(0.45)
deferred annuities	(2.00)	(2.10)	(1.00)

Mortality rates

The future mortality assumptions are based on historical experience with an allowance for future mortality improvement in annuities. The SL Insurance Business' own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

Mortality tables used	2017	2016	2015
Annuities			
Individual and group in deferment	Males: 62.6% AMC000 Females: 64.2% AFC00	Males: 64.7% AMC00 Females: 65.7% AFC00	Males: 67.0% AMC00 Females: 65.2% AFC00
Individual after vesting (business written after 10 July 2006)	Males: 95.3% RMC00 Females: 99.3% RFC00	Males: 91.2% RMC00 Females: 99.9% RFC00	Males: 92.6% RMC00 Females: 100.3% RFC00
Individual after vesting (business written prior to 10 July 2006)	Males: 100.1% RMC00 Females: 105.5% RFC00	Males: 95.7% RMC00 Females: 104.7% RFC00	Males: 97.1% RMC00 Females: 104.0% RFC00
Group after vesting (business written after 10 July 2006)	Males: 113.0% RMV00 Females: 117.5% WA00	Males: 109.8% RMV00 Females: 118.3% WA00	Males: 112.1% RMV00 Females: 119.9% WA00
Group after vesting (business written prior to 10 July 2006)	Males: 112.5% RMV00 Females: 120.1% WA00	Males: 109.3% RMV00 Females: 120.1% WA00	Males: 111.6% RMV00 Females: 120.8% WA00

In the valuation of the liabilities in respect of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. For 2017, this is based on the SL Insurance Business' parameterisation of the CMI_2015 model with long-term improvement rates of 2.0% for males and 1.7% for females. The Continuous Mortality Investigation Bureau (CMI) is a body funded by the UK insurance and reinsurance industry that produce industry standard mortality tables and projection bases for mortality improvements. CMI_2015 is a model that was published towards the end of 2015.

At 2016, this was based on the SL Insurance Business' parameterisation of the CMI_2014 model with long-term improvement rates of 1.8% for males and 1.5% for females. CMI_2014 is a model that was published towards the end of 2014.

The SL Insurance Business' parameterisation of the CMI_2015 and CMI_2014 models make the following changes relative to the 'core' model.

Blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model).

Assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

For contingent spouses' benefits an assumption is also made with regard to the proportions married, based on the SL Insurance Business' historic experience.

In addition the SL Insurance Business' parameterisation of the CMI_2015 model makes the following change relative to the 'core' model.

Tapers long-term improvements rates to 1.25% at age 100+ from age 82 (compared with tapering to 0% at age 110 over a 25 year period, in the core CMI model).

Expenses

The assumptions for future policy expense levels are determined from the SL Insurance Business' recent expense analyses. No allowance has been made for potential expense improvement and the costs of projects to improve expense efficiency have been ignored. The assumed future expense levels incorporate an annual inflation rate allowance of 3.65% (2016: 3.79%: 2015: 3.12%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate of interest.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

Withdrawals

For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

(b) Change in non-participating investment contract liabilities is as follows:

	2017	2016	2015
		(£m)	
At 1 January	**101,996**	**92,824**	**88,145**
Contributions	9,557	10,773	12,550
Account balances paid on surrender and other terminations in the year	(15,778)	(10,724)	(10,552)
Investment return and related benefits	8,873	8,776	3,376
Contract reclassification	(13)	(5)	—
Foreign exchange adjustment	237	826	(245)
Recurring management charges	(489)	(473)	(450)
At 31 December	**104,383**	**101,997**	**92,824**

(c) Expected settlement and recovery

An indication of the term to contracted maturity/repricing date for insurance and investment contract liabilities is given in Note 34 – Risk management. Reinsurance contracts are generally structured to match liabilities on a class of business basis. This has

a mixture of terms. The reinsurance assets are therefore broadly expected to be realised in line with the settlement of liabilities (as per the terms of the particular treaty) within a reinsured class of business.

(d) Movement in unallocated divisible surplus (UDS)

	2017	2016	2015
		(£m)	
At 1 January	**581**	**661**	**649**
Revaluation of owner occupied property	—	5	4
Part VII transfer	—	—	37
Change in UDS not recognised in the income statement	—	5	41
Change in UDS recognised in the income statement	61	106	(108)
Foreign exchange adjustment	(39)	(192)	79
At 31 December	**603**	**580**	**661**

26. Financial liabilities

	Note	2017	2016	2015
			(£m)	
Financial liabilities at FVTPL:				
Classified as held for trading:				
Derivative financial liabilities	17	768	950	1,239
Total financial liabilities classified as held for trading		**768**	**950**	**1,239**
Designated upon recognition:				
Non-participating contract liabilities		104,383	101,997	92,824
Total financial liabilities designated upon initial recognition		**104,383**	**101,997**	**92,824**
Total financial liabilities at FVTPL		**105,151**	**102,947**	**94,063**
Financial liabilities measured at amortised cost:				
Non-participating contract liabilities		4	4	4
Deposits received from reinsurers		4,633	5,093	5,134
Subordinated liabilities	27	318	318	317
Other financial liabilities	30	2,538	3,250	2,339
Total financial liabilities recognised at amortised cost		**7,493**	**8,665**	**7,794**
Total financial liabilities		**112,644**	**111,612**	**101,857**

27. Subordinated liabilities

The subordinated liabilities balance is made up of:

	Note	2017	2016	2015
			(£m)	
Subordinated intercompany loans – Mutual Assurance Capital Securities				
6.546% £300,000,000 intercompany loan..............		318	318	317
Total subordinated liabilities	26	**318**	**318**	**317**

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year. The principal amount of the subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £20m (2016: £20m; 2015: £20m) is expected to be settled within 12 months.

The sterling denominated MACS bear interest at a rate of 6.546% per annum payable annually in arrears on 6 January. From and including 6 January 2020 and every fifth anniversary thereafter, these MACS will bear interest annually in arrears based on the aggregate of a margin plus the gross redemption yield over specified gilts.

Amounts due under the MACS are classified as liabilities. This classification is determined by the interaction of these arrangements with a £100 internal subordinated loan note issued by the SL Insurance Business to Standard Life plc on 10 July 2006. There is no fixed redemption date for the internal loan note, but interest payments cannot be deferred and must be paid on the date they become due and payable. Under the terms of the MACS any interest deferred on these instruments becomes immediately due and payable on the date of an interest payment in respect of the internal loan note. The existence of the internal loan note therefore removes the discretionary nature of the interest payments on the MACS, and results in their classification as liabilities. Under IAS 32 Financial Instruments: Presentation, if the SL Insurance Business was to cancel the internal loan note then this would result in the reclassification of the MACS from liabilities to equity instruments at that point.

28. Pension and other post-retirement benefit provisions

SLAL is the sponsoring employer for the defined benefit plans. Details of the defined benefit and defined contribution pension plans operated by the Group which are relevant to the SL Insurance Business in the United Kingdom, Republic of Ireland and Germany are outlined below. As there is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit plans across the participating companies, the SL Insurance Business recognises the total defined benefit cost of the plans adjusted for the contributions made to the plans by other participating companies.

The Trustees of the UK defined benefit plan set the investment strategy to protect the funding ratio of the Trustees' funding position. The funding position is a Trustee measure that reflects the amount of assets required to pay future benefits and it is this position that determines contributions that the SL Insurance Business pays into the plan. Whilst the IAS 19 surplus of the UK scheme has increased significantly in recent years the funding ratio has remained comparatively stable.

For the UK defined benefit plan, SLAL considers that it has an unconditional right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan trustees can purchase annuities to insure member benefits and can, for the majority of benefits, transfer these annuities to members. The trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

Defined benefit plans

UK plans

These plans are governed by trustee boards, which comprise employer and employee nominated trustees and an independent trustee. The plans are subject to the statutory funding objective

requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for benefits already built-up under the plan). The trustees perform regular valuations to check that the plans meet the statutory funding objective.

While the IAS 19 valuation reflects a best estimate of the financial position of the plan, the funding valuation reflects a prudent estimate. There is no material difference in how assets are measured. The funding measure of liabilities ('technical provisions') and the IAS 19 measure are materially different. The key differences are the discount rate and inflation assumptions. While IAS 19 requires that the discount rate reflect corporate bond yields, the funding measure discount rate reflects a prudent estimate of future investment returns – based on the actual investment strategy. The funding valuation adopts a market consistent measure of inflation without any adjustment. The IAS 19 assumption incorporates an adjustment to remove the inflation risk premium believed to exist within market prices.

The trustees set the plan investment strategy to protect the ratio of plan assets to the trustees' measure of technical provisions. This investment strategy does not aim to protect the IAS 19 surplus or the ratio of plan assets to the IAS 19 measure of liabilities.

After consulting the relevant employers, the trustees prepare statements of funding and investment principles and set a schedule of contributions. If necessary, this schedule includes a recovery plan that aims to restore the funding level to the level of the technical provisions.

UK Standard Life plan (principal plan)	This is the principal defined benefit plan of the SL Insurance Business. The plan closed to new membership in 2004 and changed from a final salary basis to a revalued career average salary basis in 2008. Accrual ceased in April 2016. The funding of the plan depends on the statutory valuation performed by the trustees, and the relevant employers, with the assistance of the scheme actuary – i.e. not the IAS 19 valuation. The funding valuation was last completed as at 31 December 2016, and measured plan assets and liabilities to be £4.9bn and £4.2bn respectively. This corresponds to a surplus of £0.7bn and funding level of 117%. As there is currently no deficit, no recovery plan is required.
Other plans	
Ireland Standard Life plan	In December 2009 this plan closed to new membership and changed from a final salary basis to a career average revalued earnings (CARE) basis. At the last trustee valuation, effective 1 January 2016, the plan was 70% funded on an ongoing basis.
Other	The SL Insurance Business operates a smaller unfunded defined benefit plan in Germany

Plan regulations

The plans are administered according to local laws and regulations in each country. Responsibility for the governance of the plans rests with the relevant Trustee Boards (or equivalent).

Defined contribution plans

The contributions by the SL Insurance Business to defined contribution plans recognised as an expense are £15m (2016: £16m; 2015: £13m)

Defined benefit plans

(a) Contributions to plans

The following table shows the actual contributions made to the plans by all participating companies:

	2017	2016	2015
		(£m)	
UK	3	2	6
Other	2	2	1

These contributions to the plans were made by Standard Life Employee Services Limited, a related entity within the SLA Group, and recharged to participating companies in the SLA Group, including the SL Insurance Business, in line with the SLA Group expense methodology. Expected contributions to the Ireland defined benefit plan in 2018 are £2m.

(b) Analysis of amounts recognised in the income statement

	Note	2017	2016	2015
			(£m)	
Current service cost		(1)	(13)	(51)
Interest income		30	33	27
Administration expenses		(3)	(3)	(2)
Credit recognised in the income statement	7	26	17	(26)

The amounts in the table above relate to the total defined benefit cost of the plans adjusted for the contributions made to the plans by other participating companies.

During 2015 the terms of a plan amendment to the UK defined benefit plan were agreed which resulted in closure to future accrual from April 2016. This plan amendment did not generate a past service cost. Eligible members of the defined benefit plan received additional contributions of 6% of pensionable salary into the defined contribution plan in April 2015 and April 2016. The contributions were accrued over the vesting period and are included in current service cost and in the cost of defined contribution plans in Note 7 for the years ended 31 December 2016 and 31 December 2015.

(c) Analysis of amounts recognised in the statement of financial position

	2017		
	UK	Other	Total
		(£m)	
Present value of funded obligation	(2,839)	(115)	(2,954)
Present value of unfunded obligation	—	(9)	(9)
Fair value of plan assets	4,530	73	4,603
Effect of limit on plan surpluses	(592)	—	(592)
Net asset/(liability) in the statement of financial position	**1,099**	**(51)**	**1,048**

	2016		
	UK	Other	Total
		(£m)	
Present value of funded obligation	(3,207)	(117)	(3,324)
Present value of unfunded obligation	—	(10)	(10)
Fair value of plan assets	4,927	72	4,999
Effect of limit on plan surpluses	(627)	—	(627)
Net asset/(liability) in the statement of financial position	**1,093**	**(55)**	**1,038**

	2015		
	UK	Other	Total
		(£m)	
Present value of funded obligation	(2,525)	(85)	(2,610)
Present value of unfunded obligation	—	(8)	(8)
Fair value of plan assets	3,936	60	3,996
Effect of limit on plan surpluses	(514)	—	(514)
Net asset/(liability) in the statement of financial position	**897**	**(33)**	**864**

The UK plan surplus is considered to be recoverable as a right to a refund exists. The surplus has been reduced to reflect an authorised surplus payments charge that would arise on a refund.

(d) Movement in the net defined benefit asset

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(£m)		
At 1 January 2017	**(3,334)**	**4,999**	**1,665**	**(627)**	**1,038**
Current service cost	(3)	—	(3)	—	(3)
Administrative expenses	(3)	—	(3)	—	(3)
Interest (expense)/income	(81)	127	46	(16)	30
Total (expense)/income recognised in the income statement	**(87)**	**127**	**40**	**(16)**	**24**
Remeasurements:					
Return on plan assets, excluding amounts included in interest income	—	60	60	—	60
Loss from change in demographic assumptions	(89)	—	(89)	—	(89)
Loss from change in financial assumptions	(46)	—	(46)	—	(46)
Experience gains	9	—	9	—	9
Change in effect of limit on plan surpluses	—	—	—	51	51

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(£m)		
Remeasurements (losses)/ gains recognised in other comprehensive income	**(126)**	**60**	**(66)**	**51**	**(15)**
Exchange differences	(6)	2	(4)	—	(4)
Employer contributions.......	—	5	5	—	5
Benefit payments	590	(590)	—	—	—
At 31 December 2017	**(2,963)**	**4,603**	**1,640**	**(592)**	**1,048**

The following table shows the comparatives for the year ended 31 December 2016:

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(£m)		
At 1 January 2016	**(2,618)**	**3,996**	**1,378**	**(514)**	**864**
Current service cost.............	(16)	—	(16)	—	(16)
Administrative expenses	(3)	—	(3)	—	(3)
Interest (expense)/income	(93)	144	51	(18)	33
Total (expense)/income recognised in the income statement.............................	**(112)**	**144**	**32**	**(18)**	**14**
Remeasurements:					
Return on plan assets, excluding amounts included in interest income	—	1,036	1,036	—	1,036
Loss from change in financial assumptions	(812)	—	(812)	—	(812)
Experience gains..................	33	—	33	—	33
Change in effect of limit on plan surpluses	—	—	—	(95)	(95)
Remeasurements (losses)/ gains recognised in other comprehensive income	**(779)**	**1,036**	**257**	**(95)**	**162**
Exchange differences	(15)	9	(6)	—	(6)
Employer contributions.......	—	4	4	—	4
Benefit payments	190	(190)	—	—	—
At 31 December 2016	**(3,334)**	**4,999**	**1,665**	**(627)**	**1,038**

The following table shows the comparatives for the year ended 31 December 2015:

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
			(£m)		
At 1 January 2015	**(2,922)**	**4,052**	**1,130**	**(414)**	**716**
Current service cost	(53)	—	(53)	—	(53)
Administrative expenses	(2)	—	(2)	—	(2)
Interest (expense)/income	(101)	128	27	—	27
Total (expense)/income recognised in the income statement	**(156)**	**128**	**(28)**	**—**	**(28)**
Remeasurements:					
Return on plan assets, excluding amounts included in interest income	—	(73)	(73)	—	(73)
Loss from change in financial assumptions	226	—	226	—	226
Experience gains	115	—	115	—	115
Change in effect of limit on plan surpluses	—	—	—	(100)	(100)
Remeasurements (losses)/ gains recognised in other comprehensive income	**341**	**(73)**	**268**	**(100)**	**168**
Exchange differences	4	(3)	1	—	1
Employer contributions	—	7	7	—	7
Benefit payments	115	(115)	—	—	—
At 31 December 2015	**(2,618)**	**3,996**	**1,378**	**(514)**	**864**

(e) Defined benefit plan assets

Investment strategy is directed by the relevant Trustee Boards, who pursue different strategies according to the characteristics and maturity profile of each plan. Assets and liabilities are managed holistically to create a portfolio with the dual objectives of return generation and liability management. This is achieved through a diversified multi-asset absolute return strategy seeking consistent positive returns, and hedging techniques which protect liabilities against movements arising from changes in interest rates and inflation expectations. Derivative financial instruments support both of these objectives and may lead to increased or decreased exposures to the physical asset categories disclosed below.

To provide more information on the approach used to determine and measure the fair value of the plan assets, the fair value hierarchy has been used as defined in Note 36 – Fair value of assets and liabilities. Those assets which cannot be classified as Level 1 have been presented together as Level 2 or 3.

The distribution of the fair value of the assets of the funded plans of the SL Insurance Business are:

	UK			Other			Total		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
					(£m)				
Assets measured at fair value based on Level 1 inputs									
Derivatives	33	16	7	—	—	—	33	16	7
Equity securities and pooled investment vehicles	837	982	850	57	54	48	894	1,036	898
Debt securities	2,841	3,357	2,029	—	—	—	2,841	3,357	2,029
Total assets measured at fair value based on Level 1 inputs	3,711	4,355	2,886	57	54	48	3,768	4,409	2,934
Assets measured at fair value based on Level 2 or 3 inputs									
Derivatives	334	324	(9)	—	—	(3)	334	324	(12)
Equity securities and pooled investment vehicles	297	163	185	—	—	—	297	163	185
Debt securities	76	190	589	—	—	—	76	190	589
Qualifying insurance policies	5	5	4	—	—	—	5	5	4
Total assets measured at fair value based on Level 2 or 3 inputs	712	682	769	—	—	(3)	712	682	766
Cash and cash equivalents	446	186	281	16	18	15	462	204	296
Liability in respect of collateral held	(339)	(292)	—	—	—	—	(339)	(292)	—
Other	—	(4)	—	—	—	—	—	(4)	—
	107	(110)	281	16	18	15	123	(92)	296
Total	**4,530**	**4,927**	**3,936**	**73**	**72**	**60**	**4,603**	**4,999**	**3,996**

Further information on risks is provided in section (g) of this note. The £2,917m (2016: £3,547m; 2015: £2,618m) of debt securities includes £2,841m (2016: £3,357m; 2015: £2,068m) government bonds (including conventional and index-linked). Of the remaining £76m (2016: £190m; 2015: £550m) debt securities, £60m (2016: £169m; 2015: £532m) are investment grade corporate bonds or certificates of deposit.

Defined benefit plans also use pooled investment funds to access a variety of asset classes in an efficient way. Of the interests in pooled investment funds of £994m (2016: £924m; 2015: £564m), £472m (2016:£ 372m; 2015: £105m) relates to debt funds, nil (2016: £93m; 2015: £411m) relates to equity funds, £339m (2016: £286m; 2015: nil) relates to cash funds, £121m (2016: £116m; 2015: £48m) relates to absolute return funds and £62m (2016: £57m) relates to property funds.

(f) Principal assumptions

Determination of the valuation of plan liabilities is a key estimate as a result of the assumptions made relating to both economic and non-economic factors.

The principal economic assumptions for the UK plan which are based in part on current market conditions are shown below:

	2017	2016	2015
		(%)	
Discount rate	2.60	2.70	3.70
Rates of inflation:			
Consumer Price Index (CPI)	2.20	2.25	2.15
Retail Price Index (RPI)	3.20	3.25	3.15

The changes in economic assumptions over the period reflect small changes in both corporate bond prices and market implied inflation.

The most significant non-economic assumption is post-retirement longevity which is inherently uncertain. The assumptions (along with sample complete expectations of life) are illustrated below:

			Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
2017	Table	Improvements		NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2013 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	30	32	31	34

			Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
2016	Table	Improvements		NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	30	32	32	34

			Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
2015	**Table**	**Improvements**		**NRA**	**40**	**NRA**	**40**
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	30	32	32	34

(g) Risk

(i) Risks and mitigating actions

The statement of financial position of the SL Insurance Business is exposed to movements in the net defined benefit plans' net asset. In particular, the statement of financial position could be materially sensitive to reasonably likely movements in the principal assumptions for the UK plan. By offering post retirement defined benefit pension plans the SL Insurance Business is exposed to a number of risks. An explanation of the key risks and mitigating actions in place for the UK plan is given below:

Asset volatility

Investment strategy risks include underperformance of the absolute return strategy and underperformance of the liability hedging strategy. As the trustees set investment strategy to protect their own view of plan strength (not the IAS 19 position), changes in the IAS 19 liabilities (e.g. Due to movements in corporate bond prices) may not always result in a similar movement in plan assets. Failure of the asset strategy to keep pace with changes in plan liabilities would expose the plan to the risk of a deficit developing, which could increase funding requirements for the SL Insurance Business.

Yields/discount rate

Falls in yields would in isolation be expected to increase the defined benefit plan liabilities.

The UK plan uses both bonds and derivatives to hedge out yield risks on the plan's funding basis, rather than the IAS19 basis, which is expected to minimise the plan's need to rely on support from the SL Insurance Business.

Inflation

Rises in inflation expectations would in isolation be expected to increase the defined benefit plan liabilities.

The UK plan uses both bonds and derivatives to hedge out inflation risks on the plan's funding basis, rather than the IAS19 basis, which is expected to minimise the plan's need to rely on support from the SL Insurance Business.

In the UK plan pensions in payment are generally linked to CPI, however inflationary risks are hedged using RPI instruments due to lack of availability of CPI linked instruments. Therefore, the plan is exposed to movements in the actual and expected long-term gap between RPI and CPI.

Life expectancy

Increases in life expectancy beyond those currently assumed will lead to an increase in plan liabilities.

Regular reviews of longevity assumptions are performed to ensure assumptions remain appropriate.

(ii) Sensitivity to principal assumptions

The sensitivity of the UK defined benefit plan's net assets to the principal assumptions is disclosed below.

	Change in assumption	2017 (Increase)/ decrease in present value of obligation	2017 Increase/ (decrease) in fair value of plan assets	2016 (Increase)/ decrease in present value of obligation	2016 Increase/ (decrease) in fair value of plan assets
Yield/discount rate	Decrease 1%	(1,018)	1,634	(1,040)	1,768
	Increase 1%	727	(1,144)	739	(1,226)
Rates of inflation	Decrease 1%	624	(987)	629	(1,089)
	Increase 1%	(883)	1,395	(912)	1,553
Life expectancy	Decrease 1 year	79	—	101	—
	Increase 1 year	(78)	—	(101)	—

	Change in assumption	2015 (Increase)/ decrease in present value of obligation	2015 Increase/ (decrease) in fair value of plan assets
Yield/discount rate	Decrease 1%	(729)	1,312
	Increase 1 %	526	(896)
Rates of inflation	Decrease 1%	459	(823)
	Increase 1 %	(635)	1,178
Life expectancy	Decrease 1 year	55	—
	Increase 1 year	(55)	—

(iii) Duration of UK defined benefit obligation

	2017	2016	2015
		(Years)	
Weighted average duration			
Current pensioner	15	15	17
Non-current pensioner	29	29	27

29. Deferred income

The amount of deferred income expected to be settled after more than 12 months is £115m (2016: £145m; 2015: £176m).

	Note	2017	2016	2015
			(£m)	
At 1 January		**195**	**233**	**271**
Additions during the year	4	11	14	24
Amortisation	4	(51)	(59)	(60)
Foreign exchange adjustment	2	7	(20)	
At 31 December		**157**	**195**	**233**

30. Other financial liabilities

	Note	2017	2016	2015
			(£m)	
Amounts payable on direct insurance business		317	362	334
Amounts payable on reinsurance contracts		5	6	7
Due to related parties		73	67	117
Outstanding purchases of investment securities		184	284	179
Accruals and deferred income		64	66	64
Creation of units awaiting settlement		23	26	18
Cash collateral held in respect of derivative assets		1,494	2,007	1,166
Bank overdrafts	21	8	28	49
Property related creditors		173	175	129
Other		197	229	276
Total other financial liabilities	26	**2,538**	**3,250**	**2,339**

Bank overdrafts are subject to variable interest rates. The carrying amount of bank overdrafts disclosed above reasonably approximate the fair values as at the year end. Other borrowings relate to mortgage loans. The amount of other financial liabilities expected to be settled after more than 12 months is £105m (2016: £101m; 2015: £140m).

31. Other liabilities

	Note	2017	2016	2015
			(£m)	
Provisions	32	281	185	8
Group Relief		—	—	1
Taxes payable		93	88	67
Total other liabilities		**374**	**273**	**76**

The amount of other liabilities expected to be settled after more than 12 months is £85m (2016: £98m; 2015: £1m).

32. Provisions

	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
		(£m)		
At 1 January 2017	**175**	**—**	**11**	**185**
Additions in the year	100	—	31	132
Amounts used in year	(27)	—	(5)	(32)
Unused amounts reversed	—	—	(4)	(4)
At 31 December 2017	**248**	**—**	**33**	**281**

	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
		(£m)		
At 1 January 2016	**—**	**1**	**7**	**8**
Additions in the year	175	—	8	183
Amounts used in year	—	—	(3)	(3)
Unused amounts reversed	—	(1)	(2)	(3)
At 31 December 2016	**175**	**—**	**10**	**185**

	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
		(£m)		
At 1 January 2015	**—**	**1**	**7**	**8**
Additions in the year	—	—	1	1
Amounts used in year	—	—	—	—
Unused amounts reversed	—	—	(1)	(1)
At 31 December 2015	**—**	**1**	**7**	**8**

The amount of other provisions expected to be settled after more than 12 months is £82m (2016: £98m; 2015: £1m)

Annuity sales practices relating to enhanced annuities

The provision for annuity sales practices includes £229m (2016: £175m; 2015: nil) in relation to enhanced annuities.

On 14 October 2016, the Financial Conduct Authority (FCA) published the findings of its thematic review of non-advised annuity sales practices. The SL Insurance Business has been a participant in that review. The FCA looked at whether firms provided sufficient information to their customers about their potential eligibility for enhanced annuities.

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

The SL Insurance Business has provided for an estimate of the redress payable to customers, which may comprise both lump sum payments and enhancements to future annuity payments, the costs of conducting the review and other related expenses.

The SL Insurance Business has in place liability insurance and is seeking for up to £100m of the financial impact of the provision to be mitigated by this insurance. Discussions are ongoing with our insurers and, as a result, no insurance recovery has been recognised as an asset in these financial statements.

The SL Insurance Business expects the majority of the outflows associated with this provision, including outflows relating to establishing any reserves for future annuity payments, to have occurred by mid 2019.

The SL Insurance Business has not provided for any possible FCA-levied financial penalty relating to the review. Disclosure of related contingent liabilities is included in Note 37.

Estimates and assumptions

The key assumptions in relation to the provision for annuity sales practices are:

- The number of customers entitled to redress
- The amount of redress payable per customer
- The costs of conducting the review

The number of customers entitled to redress has been estimated based on:

- The number of customers in the review population
- The estimated percentage of these customers eligible for an enhanced annuity
- The estimated percentage of these eligible customers that did not receive sufficient information from Standard Life about enhanced annuities

The FCA thematic review noted that between 39% and 48% of customers who bought a standard annuity may potentially have been eligible for an enhanced annuity, and the provision assumes 43.5% of customers were eligible for an enhanced annuity.

The assumption of the percentage of eligible customers that did not receive sufficient information from Standard Life about enhanced annuities and suffered loss as a result is based on a sample of Standard Life customers reviewed as part of the FCA thematic review.

The FCA thematic review noted, for the industry as a whole, a plausible range of lost income for customers who were entitled to enhanced annuities but purchased standard annuities to be between £120 and £240 per annum for an average annuity purchase price of £25,000.

The lost income for customers who were entitled to enhanced annuities, for an average purchase price of £25,000, is assumed to be £300 per annum. This assumption is based on sample testing using the redress calculator provided by the FCA in early 2018. This assumption is higher than the assumption of £180 per annum used at end 2016, which was based on the FCA thematic review and was prior to receiving the FCA redress calculator. This assumption change is the main reason for the increase in the provision compared to 2016.

Assumptions relating to future annuity payments are consistent with other annuity reserving assumptions.

The costs of conducting the review relate to administrative expenses per case and wider project costs. The costs are based on our project planning.

At this stage there is significant uncertainty relating to the amount of redress payable and the expenses of the review. Sensitivities are provided in the table below.

Assumption	Change in assumption	Consequential change in provision
Percentage of customers eligible for an enhanced annuity	Percentage changed by +/-4.5 (e.g. 43.5% increased to 48%)	+/- £17m
Percentage of eligible customers that did not receive sufficient information from Standard Life about enhanced annuities	Percentage changed by +/-5	+/-£12m
Lost income per annum for an average annuity purchase of £25,000	+/- £60	+/-£37m
Costs per case of conducting the review	+/- 20% of the cost per case	+/-£6m

33. Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

(a) Change in operating assets and liabilities

	2017	2016	2015
		(£m)	
Change in operating assets:			
Investment property	(1,721)	1,793	(353)
Assets held for sale	84	(149)	(77)
Pension and other post-retirement benefit assets	(25)	(12)	20
Equity securities and interests in pooled investment funds	(4,914)	(12,685)	(2,501)
Debt securities	5,522	638	(1,508)
Derivative net (liabilities)/assets	309	(1,365)	1,123
Reinsurance assets	566	116	529
Receivables and other financial assets and other assets	193	318	(140)
Deferred acquisition costs	(46)	(49)	(56)
Loans	96	198	(221)
	64	(11,197)	(3,184)
Change in operating liabilities:			
Other financial liabilities and other liabilities	(591)	1,129	(865)
Deposits received from reinsurers	(460)	(41)	(508)
Deferred income	(38)	(38)	(38)
Third party interest in consolidated funds	1,453	(2,177)	479
Non-participating insurance contract liabilities	(223)	1,933	(642)
Non-participating investment contract liabilities	2,153	8,349	4,920
Participating contract liabilities	(1,206)	(55)	(1,004)
	1,088	9,107	2,342
Net decrease in operating assets and liabilities	**1,152**	**(2,097)**	**(842)**

* Investments in these investment vehicles have been classified as operating activities due to the nature of the underlying transactions.

(b) Movement in subordinated liabilities and other borrowings arising from financing activities

	Subordinated liabilities		
	2017	**2016**	**2015**
		(£m)	
At 31 January	**318**	**318**	**318**
Cashflows from financing activities:			
Interest paid	(20)	(20)	(20)
Non -cash movements:			
Interest capitalised	20	20	20
At 31 December	**318**	**318**	**318**

34. Risk management

(a) Overview

The SL Insurance Business' approach to effective risk management is predicated on strong risk awareness and risk accountability. This approach aims to deliver long-term value for customers and shareholders and protect their interests. The SL Insurance Business ensures that:

- Well informed risk-reward decisions are taken in pursuit of the business plan objectives
- Capital is delivered to areas where most value can be created from the risks taken

The SL Insurance Business' risk framework operates through a well-embedded risk culture, effective risk control processes, robust risk governance, sound financial management and active monitoring of risks. The SL Insurance Business adopts the Enterprise Risk Management (ERM) framework used by the SL Group in 2017. The ERM framework enables a risk-based approach to managing the business and integrates concepts of strategic planning, operational management and internal control. The ERM framework includes the methods and processes used to manage risks, and identify and seize commercial opportunities related to the achievement of our objectives, protecting and enhancing value. All of the ERM components are interconnected and work together to provide a holistic framework ensuring the SL Group is well placed to anticipate future areas of risk and prepare appropriately

The SL Insurance Business has established a Risk and Capital Committee in to provide oversight and challenge of, and advice to, the Board and, where appropriate, the Board of any Relevant Group Company on:

- the SL Group's current risk strategy, material risk exposures and future risk strategy (as the same apply to SL Insurance Business) and their impact on levels and allocation of capital and dividend paying capacity;
- the structure and implementation of the ERM framework in the context of the SL Insurance Business and its suitability to react to forward-looking issues and the changing nature of risks;
- changes to the risk appetite framework and quantitative risk limits;
- the risk aspects of major investments, major product developments and other corporate transactions undertaken; and
- material risk and capital matters affecting the With Profits Fund.

The Committee meets at least four times a year at appropriate times and otherwise, as required. All members of the Committee shall be non-executive directors who are determined by the Board to be independent

For the purposes of managing risks to the SL Insurance Business' financial assets and financial liabilities, the SL Insurance Business considers the following categories:

Risk	Definition
Market	The risk that arises from the SL Insurance Business' exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.
Credit	The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner.
Demographic	The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic experience differing from that expected. This class of risk includes risks that meet the definition of insurance risk under IFRS 4 Insurance Contracts and other financial risks.

Risk	Definition
Expense	The risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the SL Insurance Business or an increase in expense inflation, either specific to the SL Insurance Business or relating to economic conditions. This risk will be present on contracts where the SL Insurance Business cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.
Liquidity	The risk that the SL Insurance Business is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.
Operational	The risk of adverse consequences for the SL Insurance Business' business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below.
Conduct	The risk that through our behaviours, strategies, decisions and actions the firm delivers unfair outcomes to our customer/client and/or poor market conduct.
Regulatory & Legal	The risk that arises from violation, or non-conformance with laws rules, regulations, prescribed practices or ethical standards which may result in fines, payments of damages, the voiding of contracts and damaged reputation.
Strategic	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.

The main sources of these risks for the SL Insurance Business and an explanation of actions taken to manage the exposure to each risk during the year are outlined in the remainder of this note.

The assets and liabilities on the SL Insurance Business' statement of financial position can be split into three categories (risk segments) which give the shareholder different exposures to the risks listed above. These categories are:

Shareholder business

Shareholder business refers to the assets and liabilities to which the shareholder is directly exposed. For the purposes of this it incorporates the activities of the SL Insurance Business excluding participating funds. It incorporates the Shareholder Fund (SHF) and Proprietary Business Fund (PBF) excluding unit linked funds.

Participating business

Participating business refers to the assets and liabilities of the participating funds of the SL Insurance Business.

It incorporates the following funds: Heritage With Profits Fund (HWPF), UK Smoothed Managed With Profits Fund (UKSMWPF), German With Profits Fund (GWPF) and German Smoothed Managed With Profits Fund (GSMWPF). It also includes the liabilities for insurance features and financial guarantees contained within contracts held in the HWPF that invest in unit linked funds.

It does not include the liabilities for insurance features contained in contracts invested in the GWPF or GSMWPF. Such liabilities are included in shareholder business.

Unit linked funds

Unit linked funds refers to the assets and liabilities of the SL Insurance Business' unit linked funds.

It does not include the cash flows (such as asset management charges or investment expenses) arising from the unit linked fund contract or the liabilities for insurance features or financial guarantees contained within the unit linked fund contract. Such cash flows and liabilities are included in shareholder business or participating business.

Further explanation of the fund structures is given in Note 1.2.

The table below sets out how the shareholder is exposed to the market, credit, demographic and expense risk and liquidity risk at the reporting date arising from the three risk segments of assets and liabilities:

Risk	Shareholder business	Participating business	Unit linked funds
Market	The shareholder is directly exposed to the impact of movements in equity and property prices, interest rates and foreign exchange rates on the value of assets held by the shareholder business and the associated movements in liabilities.	The shareholder is exposed to the market risk that the assets of the with profits funds are not sufficient to meet their obligations (burnthrough from the with profits funds). If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are largely managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure arises from the changes in the value of future profits earned on unit linked funds due to market movements.
Credit	The shareholder is directly exposed to credit risk from holding cash, debt securities, loans, derivative financial instruments and reinsurance assets and the associated movement in the value of liabilities.	The shareholder is exposed to the credit risk on the assets which could cause the with profits funds to not have sufficient resources to meet its obligations (burnthrough from the with profits funds). If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are largely managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure is limited to changes in the value of future profits earned on unit linked funds due to market movements.
Demographic and expense	The shareholder is exposed to longevity and mortality risk on annuity contracts and other contracts written containing insurance features that are invested in unit linked funds or in the GWPF. The shareholder is also exposed to expenses and persistency being different from expectation on these contracts.	The shareholder receives recourse cash flows and certain other defined payments in accordance with the Scheme and other relevant agreements. The recourse cash flows are based on several different components of which some are sensitive to demographic and expense risk.	The shareholder is exposed to demographic and expense risk arising on components of unit linked fund contracts, but it is not the assets or liabilities of the fund which gives rise to this exposure.
Liquidity	The shareholder is directly exposed to the liquidity risk from the shareholder business if it is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so	If a with profits fund cannot meets its obligations the shareholder will be exposed to the shortfall in the fund and will be required to meet the policyholder claims and benefits as they fall due.	Unit linked funds are normally expected to meet their obligations through liquidating the underlying assets in which they are invested. If a unit linked fund cannot meet its obligations in this way, the shareholder may be required to meet the

Risk	Shareholder business	Participating business	Unit linked funds
	only at excessive cost.		obligations to the policyholder.

The shareholder is exposed to operational, conduct, regulatory and legal, and strategic risk arising across the four risk segments and any losses incurred are typically borne by the shareholder.

(b) Market risk

As described in the table in section (a), the shareholder is exposed to market risk from shareholder business and participating business and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder and participating business.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not exposed to market risks from these assets. The shareholder's exposure to market risk on these assets is limited to variations in the value of future fee based revenue earned on the contracts as fees are based on a percentage of the fund value. The sensitivity to market risk analysis includes the impact on those statement of financial position items which are affected by changes in future fee based revenue due to the market stresses changing the value of assets held by the unit linked funds.

The SL Insurance Business manages market risks through the use of a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits
- Clearly defined investment benchmarks for policyholder and equity holder funds
- Stochastic and deterministic asset/liability modelling
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio
- Setting risk limits for main market risks and managing exposures against these appetites

The specific controls and techniques used to manage the market risks in the shareholder business and participating business are discussed below:

Shareholder business

Assets in the shareholder business are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise in the business. A combination of limits by name of issuer, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

Participating business

The assets of the HWPF are principally managed to support the liabilities of the HWPF and are appropriately diversified by both asset class and geography.

The key considerations in asset and liability management of the HWPF are:

- The economic liability and how this varies with market conditions
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and the HWPF's Principles and Practices of Financial Management (PPFM)
- The need to ensure that regulatory and capital requirements are met

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

(i) Elements of market risk

The main elements of market risk to which the SL Insurance Business is exposed are equity risk, property risk, interest rate risk and foreign currency risk which are discussed below.

Information on the methods used to determine fair values for each major category of financial instrument and investment property measured at fair value is presented in Note 39 – Fair value of assets and liabilities and Note 12 – Investment Property.

(i) Equity risk

The SL Insurance Business is exposed to the risk of adverse equity market movements which could result in a financial loss. This applies to daily changes in the market values and returns on the holdings in its equity securities portfolio. The SL Insurance Business' shareholders are exposed to the following sources of equity risk:

- Direct equity shareholdings in shareholder business.
- Burnthrough from the with profits funds where adverse movements in the market values and returns on holdings in the equity portfolios of these funds mean the assets of the with profits funds are not sufficient to meet their obligations.
- The indirect impact from changes in the value of equities held in funds from which management charges or a share of performance are taken.

Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices. For the participating business, exposures are also partially hedged through the use of derivatives.

(ii) Property risk

The SL Insurance Business is exposed to the risk of adverse property market movements which could result in a financial loss. This applies to changes in the value and return on holdings in investment property. This risk arises from:

- Burnthrough from the with profits funds where adverse movements in the market values and returns on investment property in these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of property held in funds from which management charges are taken.

Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by:

- Any one property or group of property
- Geographic area
- Property type
- Development property under construction

The shareholder business is not exposed to significant property price risk.

(iii) Interest rate risk

Interest rate risk is the risk that arises from exposures to changes in the shape and level of yield curves which could result in financial loss due to the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by different amounts.

The main financial assets held by the SL Insurance Business which give rise to interest rate risk are debt securities, loans, cash and cash equivalents. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-unit linked liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments, subordinated liabilities and borrowings.

Shareholder business

In line with the Group's ERM Framework, the SL Insurance Business is required to manage its interest rate exposures in line with the SL Insurance Business' qualitative risk appetite statements and quantitative risk metrics. The SL Insurance Business typically uses a combination of cash flow and duration matching techniques to manage their interest rate risk. Hedging is used to mitigate the risk that burnthrough may arise from the with profits funds under certain circumstances where adverse interest rate movements could mean the assets of the with profits funds are not sufficient to meet the obligations of the with profits funds.

Participating business

Duration matching is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

The sensitivity of profit after tax to changes in interest rates for both the shareholder business and the participating business is included in the Profit after tax sensitivity to market risk table, shown in section (b)(ii) below.

(iv) Foreign currency risk

The SL Insurance Business' financial assets are generally held in the local currency of its operational geographical locations principally to assist with matching of liabilities. However, foreign currency risk arises where adverse movements in currency exchange rates impact the value of revenues received from, and the value of assets and liabilities held in, currencies other than the local currency. The SL Insurance Business can be exposed to foreign currency risk through the need to meet the expectations of particular groups of policyholders or to improve the SL Insurance Business' risk profile through diversification. The SL Insurance Business manages the risk profile through the use of limits on the amount of foreign currency risk that is permitted.

(ii) Sensitivity analysis – market risk

The SL Insurance Business' profit after tax and equity from continuing operations are sensitive to variations in respect of the SL Insurance Business' market risk exposures and a sensitivity analysis is presented on the following pages. The analysis has been performed by calculating the sensitivity of profit after tax from continuing operations and equity to changes in equity security and property prices and to changes in interest rates as at the reporting date applied to assets and liabilities other than those classified as held for sale.

Changes in equity security and property prices and/or fluctuations in interest rates will affect non-participating unit linked liabilities and the associated assets by the same amount. Therefore, whilst the profit impact on unit linked business has been included in the sensitivity analysis where there is an impact on the value of other statement of financial position, the change in unit linked liabilities and the corresponding asset movement has not been presented.

For the participating business, in particular the HWPF and the GWPF, the risk to shareholders is that the assets of the fund are insufficient to meet the obligations to policyholders. Given the nature of the SL Insurance Business' participating business, changes in equity security and property prices and/or fluctuations in interest rates will generally affect participating liabilities and the associated assets by the same amount. Therefore the change in participating contract liabilities and the corresponding asset movement has not been presented. However under certain economic scenarios guarantees in participating contracts could require the shareholder to provide support to the participating business. This is presented as follows:

For the HWPF, whilst shareholders are only entitled to the recourse cash flows in respect of this business, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. The recourse cash flows have been determined in accordance with the Scheme and consider the extent to which shareholders participate in the investment returns and surpluses of the HWPF. The Scheme, and in particular the Capital Support Mechanism, requires the financial state of the HWPF to be considered before recourse cash flows are transferred to the Shareholder Fund and, under certain circumstances, the payment of recourse cash flows can be withheld to support the financial strength of the HWPF. Therefore, the HWPF has been treated as a whole for the purpose of this sensitivity analysis and only the impact on the recourse cash flows of the sensitivity tests is presented. When assessing the impact of the sensitivity tests on the recourse cash flows, and in particular the risk that the assets of the HWPF may be insufficient to meet the obligations to policyholders, dynamic management actions have been assumed in a manner consistent with the relevant Principles and Practices of Financial Management (PPFM). The sensitivities presented are not sufficiently severe to have restricted recourse cash flows in 2016 and 2015.

For the GWPF, whilst shareholders are entitled to charges from this fund, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. Profit after tax and equity are sensitive to the extent that the receipt of future charges is not taken into account in the measurement of the non-participating contract liabilities in the shareholder risk segment in economic scenarios where the charges are deemed foregone to support the participating liabilities. This sensitivity is included within the non-participating insurance contract liabilities in the table below.

Limitations

The sensitivity of the SL Insurance Business' profit after tax and equity from continuing operations is non-linear and larger or smaller impacts should not be derived from these results.

The sensitivity analysis represents the impact on profit at year end that the changes in market conditions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the sensitivity factors been applied at a date other than the reporting date.

For each sensitivity 'test', the impact of a reasonably possible change in a single sensitivity factor is presented, while the other sensitivity factors remain unchanged. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on unit linked business and other with profits fund business. For example, if the tests had been applied as at 1 January, the profit during the year would have varied due to the different level of funds under management. In illustrating the impact of equity/property risk, the assumption has been made, where relevant, that expectations of corporate earnings and rents remain unchanged and thus yields change accordingly. The sensitivities take into account the likely impact on individual Group companies of local regulatory standards under such a scenario.

The following tables present the impact which would have resulted from the given change in underlying assumptions at the year end.

	31 December 2017					
	Equity		Property		Interest	
	+10%	-10%	+10%	-10%	+1%	-1%
	(£m)					
Increase/(decrease) in profit after tax and equity						
Recourse cash flow	—	—	—	—	—	—
Non-par insurance contract liabilities	—	—	—	—	642	(756)
Assets backing non-par liabilities	—	—	—	—	(662)	778
Other assets and liabilities	—	—	—	—	(6)	8
Total	—	—	—	—	(26)	30

	31 December 2016					
	Equity		Property		Interest	
	+10%	-10%	+10%	-10%	+1%	-1%
	(£m)					
Increase/(decrease) in profit after tax and equity						
Recourse cash flow	—	—	—	—	—	—
Non-par insurance contract liabilities	—	—	—	—	673	(790)
Assets backing non-par liabilities	—	—	—	—	(696)	833
Other assets and liabilities	—	—	—	—	—	—
Total	—	—	—	—	(23)	43

	31 December 2015					
	Equity		Property		Interest	
	+10%	-10%	+10%	-10%	+1%	-1%
	(£m)					
Increase/(decrease) in profit after tax and equity						
Recourse cash flow	—	—	—	—	—	—
Non-par insurance contract liabilities	—	—	—	—	538	(642)
Assets backing non-par liabilities	—	—	—	—	(569)	691
Other assets and liabilities	—	—	—	—	(17)	18
Total	—	—	—	—	(48)	67

(c) Credit risk

As described in section (a), the shareholder is exposed to credit risk from shareholder business and participating business and as a result the following quantitative credit risk disclosures are provided in respect of the financial assets of these categories.

Quantitative credit risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit linked funds are assets which are held as reinsured external fund links. Under certain circumstances the shareholder may be exposed to losses relating to the default of the reinsured external fund link. These exposures are actively monitored and managed by the SL Insurance Business and the SL Insurance Business considers the circumstances under which losses may arise to be very remote.

(i) Credit exposure

The SL Insurance Business' credit risk exposure mainly arises from its investments in its financial instruments. Concentrations of credit risk are managed by setting maximum exposure limits to types of financial instruments and counterparties. The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum counterparty exposure limits are set with reference to internal credit assessments.
Derivative financial instruments	Maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. Further details on collateral can be found in section (c)(iii).
Debt securities	The SL Insurance Business' policy is to set exposure limits by name of issuer, sector and credit rating.
Loans	Portfolio limits are set to specify the proportion of the value of the total portfolio of mortgage loans that are represented by single or a group of related counterparties, geographic area, employment status or economic sector, risk rating and loan to value percentage.
Reinsurance assets and interests in pooled investment funds	The SL Insurance Business' policy is to place reinsurance only with highly rated counterparties. The SL Insurance Business must assign internal credit ratings to reinsurance counterparties which must be approved by the Group's Credit Risk Committee. The SL Insurance Business is restricted from assuming concentrations of risk with few individual external reinsurers by specifying certain limits on ceding and the minimum conditions for acceptance and retention of reinsurers.
Other financial instruments	Appropriate limits are set for other financial instruments to which the SL Insurance Business may have exposure at certain times, for example, commission terms paid to intermediaries.

The tables that follow provide an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. For those financial assets with credit ratings assigned by external rating agencies, classification is within the range of AAA to BBB. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB have been classified as below BBB. For those financial assets that do not have credit ratings by external rating agencies but where the SL Insurance Business has assigned internal ratings for use in managing and monitoring credit risk, the assets have been classified in the analysis that follows as 'internally rated'. The total amounts presented represent the SL Insurance Business' maximum exposure to credit risk at the reporting date without taking into account any collateral held. The analysis also provides information on the concentration of credit risk.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the group, then, where appropriate the rating of the parent company has been used.

The analysis presents assets that are neither past due nor impaired, assets that are past due and assets that are impaired.

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

The objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes:

- a default against the terms of the instrument has occurred; and

- the issuer is subject to bankruptcy proceedings or is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process.

Financial assets held by custodians are properly segregated from the proprietary assets of the custodian and are free of the entitlements of creditors of the custodian in accordance with market conventions.

An analysis of financial assets by credit rating is as follows:

	As at 31 December 2017						
	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
				(£m)			
AAA	9,108	—	1,146	—	—	—	10,254
AA	21,403	20	1,393	9	4,791	—	27,616
A	15,156	—	5,531	1,290	21	—	21,998
BBB	8,390	—	137	587	—	—	9,114
Below BBB	3,158	11	—	—	—	—	3,169
Not rated	242	23	470	1,140	10	609	2,494
Internally rated	2,000	51	—	—	—	—	2,051
Past due	—	—	—	—	—	7	7
Impaired	—	—	—	—	—	—	—
Total	59,457	105	8,677	3,026	4,822	616	76,703

	As at 31 December 2016						
	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
				(£m)			
AAA	10,430	—	683	—	—	—	11,113
AA	25,183	100	1,997	56	5,356	—	32,692
A	16,009	71	3,987	1,610	12	—	21,689
BBB	8,779	48	100	970	—	—	9,897
Below BBB	2,742	—	—	—	—	—	2,742
Not rated	15	46	532	881	10	840	2,324
Internally rated	1,475	49	—	—	10	—	1,534
Past due	—	—	—	—	—	17	17
Impaired	—	—	—	—	—	—	—
Total	64,633	314	7,299	3,517	5,388	857	82,008

	As at 31 December 2015						
	Debt securities	Loans	Cash and cash equivalents	Derivatives financial assets	Reinsurance assets	Receivables and other financial assets	Total
				(£m)			
AAA	6,651	—	752	—	—	—	7,403
AA	24,912	315	1,559	19	5,459	—	32,264
A	20,520	286	5,705	1,038	27	—	27,576
BBB	8,276	45	757	692	—	—	9,770
Below BBB	2,378	1	—	—	—	—	2,379
Not rated	62	29	311	692	8	1,123	2,225
Internally rated	1,417	115	—	—	10	—	1,542
Past due	—	—	—	—	—	32	32
Impaired	11	—	—	—	—	—	11
Total	64,227	791	9,084	2,441	5,504	1,155	83,202

At 31 December 2017, receivables and other financial assets of £7m (2016: £17m; 2015: £32m) were past due by less than three months.

An analysis of debt securities by country is as follows:

	As at 31 December 2017					
	Government	Banks	Other financial institutions	Other corporate	Other[1]	Total
			(£m)			
UK	13,817	2,240	3,819	4,776	—	24,652
EU	8,528	5,725	719	3,280	—	18,252
US	3,297	1,304	638	2,880	—	8,119
Other	2,878	2,528	400	1,901	727	8,434
Total	28,520	11,797	5,576	12,837	727	59,457

	As at 31 December 2016					
	Government	Banks	Other financial institutions	Other corporate	Other(1)	Total
			(£m)			
UK	16,130	2,444	4,460	5,999	—	29,033
EU	8,414	6,814	594	3,220	—	19,042
US	4,410	1,589	679	4,014	—	10,692
Other	1,190	2,643	277	1,039	717	5,866
Total	30,144	13,490	6,010	14,272	717	64,633

	As at 31 December 2015					
	Government	Banks	Other financial institutions	Other corporate	Other(1)	Total
			(£m)			
UK	15,491	3,064	5,120	5,387	—	29,062
EU	7,015	11,406	582	2,955	—	21,958
US	633	2,036	700	2,835	—	6,204
Other	2,091	2,886	268	1,028	730	7,003
Total	25,230	19,392	6,670	12,205	730	64,227

Note:

(1) This balance primarily consists of securities held in supranational.

The Shareholders' exposure to credit risk arising from investments held in the HWPF and other with profits funds is similar in purpose to that disclosed for market risk exposures in Section (b). The financial assets of the HWPF include £4,621m (2016: £5,093m; 2015: £5,134m) of assets (primarily debt securities) deposited back under the terms of an external annuity reinsurance transaction, the transaction having been structured in this manner specifically to mitigate credit risks associated with reinsurer default. Credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

(ii) Offsetting financial assets and liabilities

The SL Insurance Business' over the counter (OTC) derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy. An ISDA master agreement is considered a master netting agreement.

The SL Insurance Business offsets loans to/from its parent where there is an unconditional right of set off and an intention to settle on a net basis. The SL Insurance Business does not offset any other financial assets and liabilities in the statement of financial position, as there are no unconditional rights to set off.

The SL Insurance Business does not hold any other financial instruments which are subject to master netting agreements or similar arrangements. The following table presents the effect of master netting agreements:

		Related amounts not offset in the statement of financial position		
	Gross amounts of financial instruments as presented in the statement of financial position	**Financial instruments**	**Financial and cash collateral pledged (received)**	**Net position**
		(£m)		
As at 31 December 2017				
Financial assets				
OTC derivatives	2,013	(457)	(1,502)	54
Reverse repurchase agreements..........................	900	—	(899)	1
Total financial assets...........	**2,913**	**(457)**	**(2,401)**	**55**
Financial liabilities				
OTC derivatives	(601)	457	66	(78)
Total financial liabilities......	**(601)**	**457**	**66**	**(78)**

		Related amounts not offset in the statement of financial position		
	Gross amounts of financial instruments as presented in the statement of financial position	Financial instruments	Financial and cash collateral pledged (received)	Net position
		(£m)		
As at 31 December 2016				
Financial assets				
OTC derivatives	2,637	(550)	(1,994)	93
Reverse repurchase agreements	800	—	(804)	(4)
Total financial assets	3,437	(550)	(2,798)	89
Financial liabilities				
OTC derivatives	(736)	550	174	(12)
Total financial liabilities	(736)	550	174	(12)

		Related amounts not offset in the statement of financial position		
	Gross amounts of financial instruments as presented in the statement of financial position	Financial instruments	Financial and cash collateral pledged (received)	Net position
		(£m)		
As at 31 December 2015				
Financial assets				
OTC derivatives	1,749	(548)	(1,180)	21
Total financial assets	1,749	(548)	(1,180)	21
Financial liabilities				
OTC derivatives	(1,055)	548	455	(52)
Total financial liabilities	(1,055)	548	455	(52)

(iii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of derivative financial instruments is accepted from and provided to certain market counterparties in respect of derivative financial instruments to mitigate counterparty risk in the event of default. The use of collateral in respect of derivative financial instruments is governed by formal bilateral agreements between the parties. The amount of collateral required by either party is calculated daily based on the value of derivative transactions in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Any collateral moved under the terms of

these agreements is transferred outright. With regard to either collateral pledged or accepted the SL Insurance Business may request the return of, or be required to return, collateral to the extent it differs from that required under the daily margin calculations. Furthermore alternative collateral such as securities may be provided if acceptable to both parties. Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close out calculation of net counterparty exposure. At 31 December 2017, the SL Insurance Business had pledged £15m (2016: £23m; 2015: £435m) of cash and £103m (2016: £184m; 2015: £25m) of securities as collateral for derivative financial liabilities. At 31 December 2017, the SL Insurance Business had accepted £1,494m (2016: £2,007m; 2015: £1,166m) of cash and £944m (2016: £8m; 2015: £10m) of securities as collateral. None of the above securities were sold or repledged at the year end.

(iv) Credit spreads

As at 31 December 2017, it is expected that an adverse movement in credit spreads of 50 basis points, with no change to default allowance, would result in a reduction to profit for the year of £17m (2016: £22m reduction; 2015: £23m reduction. A further reduction of £78m (2016: £58m; 2015: £69m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

(v) Credit risk on loans and receivables and financial liabilities designated as FVTPL

(i) Loans and receivables

The SL Insurance Business holds a number of financial instruments, which meet the definition of loans and receivables under IAS 39 *Financial Instruments: Recognition and Measurement* and on initial recognition were designated as FVTPL. These instruments are included in debt securities in the statement of financial position.

The SL Insurance Business' exposure to such financial instruments at 31 December 2017 was £923m (2016: £824m; 2015: £587m). During the year, fair value gains of £2m (2016: £27m gains; 2015: £4m losses) in relation to the participating and shareholder business loans and receivables were recognised in the income statement. The amount of this movement that is attributable to changes in the credit risk of these instruments was losses of £3m (2016: £9m gains; 2015: £2m gains). The loans and receivables relating to unit linked business consist solely of income strips . Due to the long-term nature of these instruments it is not possible to identify the associated credit risk. The shareholder has no exposure to such risk.

As described in (a) above, market risk is defined by the ERM framework as the risk that arises from the SL Insurance Business' exposure to market movements, which could result in the value of income, or value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts. The movement in the fair value of the loans and receivables incorporates both movements arising from credit risk and resulting from changes in market conditions.

(ii) Financial liabilities

The SL Insurance Business has designated unit-linked non-participating investment contract liabilities as FVTPL. As the fair value of the liability is based on the value of the underlying portfolio of assets, the movement, during the year and cumulatively, in the fair value of the unit linked participating investment contract liabilities is only attributable to market risk.

(d) Demographic and expense risk

As described in section (a), the shareholder is directly exposed to demographic and expense risk from shareholder business and participating business and as a result quantitative demographic and expense risk disclosures are provided in respect of these categories.

Demographic and expense risk is managed by analysing experience and using statistical data to make certain assumptions on the risks associated with the policy during the year that it is in force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing demographic and expense risk exposures, the SL Insurance Business considers:

- Historic experience of relevant demographic and expense risks;
- The potential for future experience to differ from that expected or observed historically;
- The financial impact of variance in expectations; and
- Other factors relevant to their specific markets, for instance, obligations to treat customers fairly.

Reinsurance or other risk transfer mechanisms are used to manage risk exposures and are taken into account in the SL Insurance Business' assessment of demographic and expense risk exposures.

(i) Elements of demographic and expense risk

The main elements of demographic and expense risk that give rise to the SL Insurance Business' exposure are discussed below.

Longevity

The SL Insurance Business defines longevity risk as the risk that policyholders live longer than expected which gives rise to losses for the shareholder. This may arise from current experience differing from that expected, or the rate of improvement in mortality being greater than anticipated. This risk is relevant for contracts where payments are made until the death of the policyholder, for example, annuities.

Experience can vary as a result of statistical uncertainty or as a consequence of systemic (and previously unexpected) changes in the life expectancy of the insured portfolio. The profitability of such business will reduce should policyholders live longer than expected and reported profits will be impacted as and when such variances are recognised in liabilities.

Morbidity

The SL Insurance Business defines morbidity risk as the risk that claims dependent on the state of health of a policyholder are incurred at a higher than expected rate or, in the case of income benefits, continue for a longer duration or start earlier than those assumed and could either arise over time or as a result of a single catastrophic event such as a pandemic. This risk will be present on disability income, healthcare and critical illness contracts. Income protection contracts have the risk that claim duration may be longer than anticipated.

Mortality

The SL Insurance Business defines mortality risk as the risk that death claims are at a higher rate than assumed and could either arise over time or as a result of a single catastrophic event such as a pandemic. This risk will exist on any contracts where the payment on death is greater than the reserve held.

Persistency – withdrawals and lapse rates

The SL Insurance Business defines persistency risk as the risk that clients or policyholders redeem their investments or surrender, lapse or pay-up their policies at different rates than assumed resulting in reduced revenue and/or financial losses. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits arising from early retirements, surrenders – either partial or in full – and similar policyholder options.

Variances in persistency will affect shareholder profits to the extent that charges levied against policies are dependent upon the number of policies in force and/or the average size of those policies. This risk is primarily relevant for unit linked and unitised with profits business. Profits may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

Expenses

The SL Insurance Business defines expense risk as the risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the SL Insurance Business or an increase in expense inflation, either SL Insurance Business specific or relating to economic conditions. This risk will be present on contracts where the SL Insurance Business cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.

Shareholder profits are directly exposed to the risk of expenses being higher than otherwise expected. They can be further affected if it is considered necessary or prudent to increase liabilities to reflect increased expectations of future costs of policy administration.

(ii) Sensitivity analysis – demographic and expense risk

Recognition of profits after tax and the measurement of equity are dependent on the methodology and key assumptions used to determine the SL Insurance Business' insurance and investment contract liabilities – as described in Note 2.

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the SL Insurance Business' most significant demographic and expense risk exposures, including exposure to persistency risk. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged.

For the participating business, the tables above illustrate the impact of demographic and expense risk on the recourse cash flows from the HWPF, which have been determined in accordance with the Scheme and take into account the need to consider the impact of risk on the financial position of the HWPF before any recourse cash flows can be transferred to the SHF. The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. Refer to Section (b)(ii).

The shareholder business currently bears longevity risk both on contracts written in the PBF and on contracts written in the HWPF for which longevity risk has been transferred to the PBF.

	31 December 2017							
	Longevity		**Expenses**		**Persistency**		**Morbidity/ mortality**	
Increase/(decrease) on profit after tax and equity	**+5%**	**-5%**	**+10%**	**-10%**	**+10%**	**-10%**	**+5%**	**-5%**
	(£m)							
Participating business								
Recourse cash flow	(19)	18	(2)	1	—	—	(2)	2
Shareholder business								
Non-participating insurance contract liabilities	(142)	133	(8)	8	1	(1)	(1)	1
Reinsurance assets	—	—	—	—	—	—	1	(1)
Total	**(161)**	**151**	**(10)**	**9**	**1**	**(1)**	**(2)**	**2**

Increase/(decrease) on profit after tax and equity	31 December 2016 Longevity +5%	Longevity -5%	Expenses +10%	Expenses -10%	Persistency +10%	Persistency -10%	Morbidity/ mortality +5%	Morbidity/ mortality -5%
	(£m)							
Participating business								
Recourse cash flow	(16)	15	(1)	1	—	—	(2)	2
Shareholder business								
Non-participating insurance contract liabilities	(136)	128	(8)	8	1	(1)	—	—
Reinsurance assets	—	—	—	—	—	—	1	(1)
Total	**(152)**	**143**	**(9)**	**9**	**1**	**(1)**	**(1)**	**1**

Increase/(decrease) on profit after tax and equity	31 December 2015 Longevity +5%	Longevity -5%	Expenses +10%	Expenses -10%	Persistency +10%	Persistency -10%	Morbidity/ mortality +5%	Morbidity/ mortality -5%
	(£m)							
Participating business								
Recourse cash flow	(17)	16	(3)	3	—	—	(3)	3
Shareholder business								
Non-participating insurance contract liabilities	(111)	104	(7)	7	1	(1)	(1)	1
Reinsurance assets	—	—	—	—	—	—	1	(1)
Total	**(127)**	**120**	**(10)**	**9**	**1**	**(1)**	**(3)**	**3**

When the sensitivities presented in the table above are applied to other with profits funds, there are no significant impacts on net liabilities after reinsurance, equity or profits for either investment or insurance contracts. Amounts in the tables above are presented net of tax and reinsurance.

Limitations

The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented above. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the sensitivity analysis may vary as a consequence of the passage of time or as a consequence of changes in underlying market or financial conditions. The sensitivity analysis in respect of longevity risk has been performed on the relevant annuity business and presents for a +5% longevity stress the impact of a 5% reduction in the underlying mortality rates (and vice versa). It has also been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rates.

(e) Liquidity risk

As described in section (a), the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked funds and as a result the following quantitative liquidity risk disclosures are provided in respect of the financial liabilities of these categories.

For annuity, with profits, and unit linked business, liquidity risk is primarily managed by holding a range of diversified instruments which are assessed against estimated cash flow and funding requirements.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. The SL Insurance Business actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching. For Pension and Savings, the reinsurance treaty between the Group and Canada Life International Re provides for the cash settlement of amounts owed by Canada Life International Re.

For with profits contracts, a portfolio of assets is maintained in the relevant funds appropriate to the nature and term of the expected pattern of payments of liabilities. Within that portfolio, liquidity is provided by substantial holdings of cash and highly liquid assets (principally government bonds). Partial cash flow matching is used to reduce liquidity risk that arises for German with profits contracts.

Where it is necessary to sell less liquid assets within the relevant portfolios, then any incurred losses are generally being passed onto policyholders in accordance with policyholders' reasonable expectations; such losses are managed and mitigated through actively anticipating net disinvestment based on policyholder behaviour and seeking to execute sales of underlying assets in such a way that the cost to policyholders is minimised.

For non-participating unit linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary, deferral terms within the policy conditions applying to the majority of the SL Insurance Business' contracts are invoked. As at 31 December 2017 and 31 December 2016 none of the funds under management were subject to deferral.

The SL Insurance Business undertakes periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to extreme policyholder behaviour).

The SL Insurance Business is required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Group's risk policy framework. Oversight is provided both at a Group level and within the SL Insurance Business. In addition, the SL Insurance Business benefits from membership of a larger Group to the extent that, centrally, the Group:

- Coordinates strategic planning and funding requirements
- Monitors, assesses and oversees the investment of assets within the Group
- Monitors and manages risk, capital requirements, and available capital on a group-wide basis
- Maintains a portfolio (currently undrawn) of committed bank facilities

Each business unit is responsible for the definition and management of its contingency funding plan. Liquidity risk is managed by each business unit in consultation with the Group Treasury function.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the SL Insurance Business expects to be able to manage liquidity risk on an ongoing basis. We recognise there are a number of scenarios that can impact the liquid resources of a business.

(i) Maturity analysis

The following tables present the expected timing of the cash flows payable on the amounts recognised on the statement of financial position for the insurance and investment contract liabilities of the SL Insurance Business as at the reporting date. To align with the risk management approach towards liquidity risk and existing management projections the analysis that follows facilitates consideration of the settlement obligations of both insurance and investment contracts.

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
				(£m)				
31 December 2017								
Non-participating insurance contract liabilities	1,541	5,388	5,445	4,252	3,388	2,733	—	22,747
Non-participating investment contract liabilities	10,564	32,794	26,873	16,175	9,340	8,638	—	104,384
Participating insurance contract liabilities	1,392	3,461	2,861	2,708	2,109	2,127	—	14,658
Participating investment contract liabilities	1,360	5,440	4,356	2,434	1,121	605	—	15,316
Unallocated divisible surplus	—	—	—	—	—	—	603	603
Total	**14,857**	**47,083**	**39,535**	**25,569**	**15,958**	**14,103**	**603**	**157,708**

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
				(£m)				
31 December 2016								
Non-participating insurance contract liabilities	1,433	5,207	5,395	4,297	3,406	3,181	—	22,919
Non-participating investment contract liabilities	9,923	31,684	26,695	16,018	9,115	8,562	—	101,997
Participating insurance contract liabilities	1,610	3,604	2,867	2,398	2,376	2,296	—	15,151
Participating investment contract liabilities	600	2,649	3,484	3,411	2,692	2,701	—	15,537
Unallocated divisible surplus	—	—	—	—	—	—	580	580
Total	**13,566**	**43,144**	**38,441**	**26,124**	**17,589**	**16,740**	**580**	**156,184**

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No Defined Maturity	Total
				(£m)				
31 December 2015								
Non-participating insurance contract liabilities	1,410	5,124	5,090	3,858	2,951	2,394	—	20,828
Non-participating investment contract liabilities	9,078	29,423	24,354	14,358	8,084	7,527	—	92,824
Participating insurance contract liabilities	2,044	3,668	2,536	1,939	2,019	2,077	—	14,283
Participating investment contract liabilities	582	2,518	3,229	3,174	2,492	2,721	—	14,716
Unallocated divisible surplus	—	—	—	—	—	—	661	661
Total	13,114	40,733	35,209	23,330	15,546	14,719	661	143,312

The tables below present the undiscounted cash flows payable by remaining contractual maturity at the reporting date and include the non-participating investment contract liabilities. The analysis excludes participating investment contract liabilities. Given that policyholders can usually choose to surrender in part or in full their unit linked contracts at any time, the SL Insurance Business' non-participating investment contract unit linked liabilities presented in the table below have been designated as less than one year. Such surrenders would be matched in practice, if necessary, by sales of underlying assets. The SL Insurance Business can delay settling liabilities to unit linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets. In this analysis, the maturity within one year includes liabilities that are repayable on demand.

As required by IFRS 7 the amounts presented in the table below are the contractual undiscounted cash flows, whereas the SL Insurance Business manages inherent liquidity risk based on expected discounted cash flows.

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
31 December 2017							
Non-participating investment contracts	104,384	—	—	—	—	—	104,384
Subordinated liabilities	20	51	51	51	51	—	224
Other financial liabilities	2,318	10	10	10	10	186	2,543
Total	**106,722**	**61**	**61**	**61**	**61**	**186**	**107,151**

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
31 December 2016							
Non-participating investment contracts	101,997	—	—	—	—	—	101,997
Subordinated liabilities	20	68	48	48	—	—	184
Other financial liabilities	4,087	44	14	13	13	225	4,398
Total	**106,104**	**112**	**62**	**61**	**13**	**225**	**106,577**

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
				(£m)			
31 December 2015							
Non-participating investment contracts	92,824	—	—	—	—	—	92,824
Subordinated liabilities	20	79	67	60	24	—	250
Other financial liabilities	2,397	20	22	13	13	111	2,576
Total	**95,241**	**99**	**89**	**73**	**37**	**111**	**95,650**

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the table along with interest payments on such instruments after 20 years.

Refer to Note 17 for the maturity profile of undiscounted cash flows of derivative financial instruments.

Deposits received from reinsurers' reflect the liability to repay the deposit received from an external reinsurer, in order to limit the SL Insurance Business' counterparty credit exposure, under a reinsurance transaction. The timing and amount of the

payment of the cash flows under this liability are defined by the terms of the treaty under which there is no defined contractual maturity date to repay the deposit as at 31 December 2017.

(f) Operational risk

The SL Insurance Business defines operational risk as the risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events.

The policy framework, which includes the Group operational risk policy, is used to support the management of operational risks.

The types of operational risk that the SL Insurance Business is exposed to are identified using the following operational risk categories:

- Data and Cyber
- Change Management
- Third Party
- Process Execution
- Business Continuity
- People
- Fraud and Irregularities
- Model

Activities undertaken to ensure the practical operation of controls over financial risk, that is, market, credit, liquidity and demographic and expense risk, are treated as an operational risk.

Operational risk exposures are controlled using one or a combination of the following: modifying operations to mitigate the exposure to the risk; accepting exposure to the risk; or accepting exposure to the risk and controlling the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented are based on, amongst other considerations:

- the potential cause and impact of the risk;
- the likelihood of the risk being realised in the absence of any controls;
- the ease with which the risk could be insured against;
- the cost of implementing controls to reduce the likelihood of the risk being realised; and
- operational risk appetite.

Risk Control Self Assessment (CSA) is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged by the Risk Function in its role of 'second line of defence'. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of Risk CSA are reported through the risk governance structure.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. The maximum amount of operational risk the SL Insurance Business is willing to retain is defined using both quantitative limits, e.g. financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

The operational risks faced by the SL Insurance Business and its exposure to these risks forms its operational risk profile. The SL Insurance Business understands and reviews its profile based on a combination of the estimated impact and likelihood of risk events occurring in the future, the results of Risk CSA and a review of risk exposures relative to approved limits.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of the SL Insurance Business are assessed and managed in accordance with established guidelines or standards.

(g) Conduct risk

The SL Insurance Business defines conduct risk as the risk that through our behaviours, strategies, decisions and actions the SL Insurance Business delivers unfair outcomes to our customer/client and/or poor market conduct. Conduct risk can occur across multiple areas and from multiple sources, including the crystallisation of an operational risk.

The SL Insurance Business has a single Conduct and Operational Risk Framework that utilises the tools outlined under operational risk (f) to ensure the appropriate identification and management of conduct risk. Business units adopt the relevant minimum standards contained within the conduct risk policy and are required to manage risk in accordance with this and other policies that have an impact on the overall conduct risk, taking mitigating action as appropriate to operate within appetites.

The following conduct risk policy standards have defined outcomes against which conduct risk is assessed within the SL Insurance Business:

- Culture
- Proposition Design
- Communication and Information
- Advice and Distribution
- Service
- Barriers
- Proposition Performance
- Market Integrity

(h) Regulatory and Legal risk

The SL Insurance Business defines regulatory and legal risk as the risk arising from violation, or non-conformance with laws rules, regulations, prescribed practices or ethical standards which may result in fines, payments of damages, the voiding of contracts and damaged reputation.

Business units must have in place procedures to identify, report and analyse all regulatory compliance breaches to the relevant business unit compliance function. Additionally, business units are required to have procedures in place to identify, assess and monitor the impact of changes to laws, regulations, and rules, prescribed practices and external regulatory events in jurisdictions where they choose to carry on regulated financial services activity.

(i) Strategic risk

The SL Insurance Business defines strategic risk as the risk associated with the robustness of the strategic planning process and the threats to the achievement of the strategy. Strategic risks are considered as part of the Pension and Savings business planning processes.

Strategic risk includes risks associated with political change which have the potential to impact the business through the introduction of new laws or regulations, or indirectly by altering client and customer sentiment. Decisions taken by the UK and Scottish governments, along with those in other locations where we operate, can significantly alter circumstances and change the way we do business.

The ongoing negotiations surrounding the UK's exit from the EU have yet to provide clarity on what the outcome will be for the UK or Europe. These unavoidable uncertainties and our failure to adequately prepare for Brexit could have significant customer, reputational and capital impacts.

The impact (financial and non-financial) and probability of the strategic risks to which the SL Insurance Business is exposed are assessed as part of this process and are reviewed on a regular basis.

(j) Capital

Capital management policies and objectives

Managing capital is the on-going process of determining and maintaining the quantity and quality of capital appropriate for the SL Insurance Business, and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the SL Insurance Business consider our key stakeholders to be the providers of capital (our equity holders, policyholders and holders of our subordinated liabilities) and the Prudential Regulation Authority (PRA).

There are two primary objectives of capital management in the SL Insurance Business. The first objective is to ensure that capital is, and will continue to be, adequate to maintain the required level of safety and stability of the SL Insurance Business and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the SL Insurance Business' regulatory solvency position. The second objective is to create shareholder value by driving profit attributable to shareholders. As at 31 December 2017 SLAL (the main operating company within the SL Insurance Business) had distributable reserves of £2,699m (2016: £2,638m).

The capital requirements of the SL Insurance Business are forecast on a periodic basis, and the requirements are assessed against the forecast available capital resources. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. Capital plans are ultimately subject to approval by the Board.

Regulatory capital framework

From 1 January 2016 the SL Insurance Business has been required to measure and monitor it's capital resource under the Solvency II (SII) regulatory regime.

The SL Insurance Business has processes to manage and report its capital positions, and has capital framework policies that specify the buffer capital that the executive management believes is sufficient to hold within the SL Insurance Business.

The SL Insurance Business' capital position under SII is determined by aggregating the assets and liabilities of the SL Insurance Business recognised and measured on a SII basis (being SL Insurance Business own funds) and comparing this to the SL Insurance Business' SII solvency capital requirement (SCR) to determine surplus capital.

Regulatory capital position

The following table sets out a reconciliation from the Solvency II balance sheet to the Solvency II Own Funds for the SL Insurance Business.

31 December 2017		**£m**
Assets	Audited	161,079
Technical provisions	Unaudited	146,140
— BEL	Audited	145,942
— Risk Margin	Unaudited	1,433
— TMTP	Unaudited	(1,235)
Other liabilities	Audited	8,783
Excess of assets over liabilities	Unaudited	**6,156**
Subordinated debt	Audited	1,023
RFF restriction	Unaudited	(921)
SL Insurance Business Own Funds	Unaudited	**6,258**

On a SII basis, using the internal model approved by the Prudential Regulation Authority for the insurance companies included within the SL Insurance Business as at 31 December 2017 the SL Insurance Business had a solvency capital requirement (SCR) of £3,148m (unaudited).

The regulated insurance companies within the SL Insurance Business had not breached any externally imposed capital requirements at any time during the year.

35. Structured entities

The SL Insurance Business' interest in structured entities is comprised of investments in a range of investment vehicles. The principal types of structured entities in which the SL Insurance Business has an interest include:

- Pooled investment funds managed internally and externally, including OEICs, SICAVs, unit trusts and limited partnerships.
- Debt securitisation vehicles which issue asset backed securities.

Where SL Insurance Business has control over such structured entities, those have been consolidated into the historical financial information (see note 40 for the detail on perimeter of the transaction and the respective holdings in equity).

Investments in structured entities

The following table shows the carrying value of the SL Insurance Business' investments in structured entities by line items in the statement of financial position as defined in Note 34 – Risk management.

	Total		
	2017	2016	2015
		(£m)	
Equity securities and interests in pooled investment funds	42,085	37,384	27,919
Debt securities	3,176	3,431	3,393

Equity securities and interests in pooled investment funds include £7,027m (2016: £7,762m; 2015: £5,595m) of investments in associates measured at FVTPL.

The asset value of investments in associates including the portion of which the SL Insurance Business has no interest is £19,500m (2016: £33,789m; 2015: £26,605m).

The total issuance balance relating to debt securities in which the SL Insurance Business has an investment in is £56,972m (2016: £54,958; 2015: £54,146m).

The SL Insurance Business' maximum exposure to loss in respect of the interests presented above is the carrying value of the SL Insurance Business' investment. As noted in Note 34 – Risk management, the shareholder is not exposed to market or credit risk in respect of investments held in the unit linked funds.

Additional information on how the SL Insurance Business manages its exposure to risk can be found in Note 34 – Risk management.

36. Structured entities

(a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair values measured using inputs that are not based on observable market data (unobservable inputs).

(b) Financial investments and financial liabilities

An analysis of the SL Insurance Business' financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes 15 and 26 and includes those financial assets and liabilities held at fair value.

(c) Non-financial investments

An analysis of the SL Insurance Business' investment property and owner occupied property within property and equipment in accordance with IAS 40 – *Investment property and* IAS 16 – *Property, plant and equipment* is presented in Notes 12 and 13 respectively and includes those assets held at fair value.

(d) Methods and assumptions used to determine fair value of assets and liabilities

The SL Insurance Business uses the methods applied by Group to determine fair values for each major category of financial instrument measured at fair value. Information on these methods and assumptions is given below.

Investment property and owner occupied property

The fair value of investment property and all owner occupied property is based on valuations provided by external property valuation experts. The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. No adjustment has been made for vacant possession for the Group's owner occupied property.

In the UK and Europe, valuations are completed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards. These are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving properties with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving properties with similar characteristics to the property being valued. In both approaches where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered.

As income capitalisation and market comparison valuations generally include significant unobservable inputs including unobservable adjustments to recent market transactions, these assets are categorised as level 3 within the fair value hierarchy.

Derivative financial assets

The majority of the SL Insurance Business' derivatives are over-the-counter (OTC) derivatives which are measured at fair value using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and OTC derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the SL Insurance Business' risk management policies. At 31 December 2017 and 31 December 2016 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

Investments in associates at FVTPL, Equity securities and interests in pooled investment funds

Investments in associates at FVTPL are classified as and valued in the same manner as the SL Insurance Business' equity securities and interests in pooled investment funds.

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Unlisted equities are valued using an adjusted net asset value. The SL Insurance Business' exposure to unlisted equity securities primarily relates to private equity investments. The majority of the SL Insurance Business' private equity investments are carried out through European fund of funds structures, where the SL Insurance Business receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting financial year. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Debt securities

For debt securities, the SL Insurance Business has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the SL Insurance Business has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

Government, including provincial and municipal, and supranational institution bonds

These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes

Corporate bonds (listed or quoted in an established over-the-counter market including asset backed securities)

These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the SL Insurance Business performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit

These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

Commercial mortgages

These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending on whether the spread is adjusted by an internal underwriting rating.

Income strips

Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the SL Insurance Business, and has signed a long lease (typically 30 – 45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1).

The valuation technique used by the SL Insurance Business to value these instruments is an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. Unlike investment properties which typically are leased on shorter lease terms, the estimated rental value is not a significant unobservable input. This is due to the length of the lease together with the nature of the rent reviews where the annual rental increases over the term of the lease in line with inflation or fixed increases. As the income capitalisation valuations generally include significant unobservable inputs including unobservable adjustment to the yield observed in other income strip transactions, these assets are categorised as level 3 in the fair value hierarchy.

Non-participating investment contract liabilities

The fair value of the non-participating investment contract liabilities is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately classified as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are classified within level 2 of the fair value hierarchy.

(i) Fair value hierarchy for assets measured at fair value in the statement of financial position

The table that follows presents an analysis of the SL Insurance Business' assets measured at fair value by level of the fair value hierarchy for each category as set out in Note 34 – Risk management.

	Level 1			Level 2			Level 3			Total		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
							(£m)					
Investment property	0	0	0	0	0	0	8,374	6,653	8,437	8,374	6,653	8,437
Owner occupied property	0	0	0	0	0	0	7	7	31	7	7	31
Derivative financial assets	989	843	692	2,036	2,674	1,749	0	0	0	3,026	3,517	2,441
Equity securities and interests in pooled investment vehicles	95,192	89,938	75,476	0	(258)	0	875	939	894	96,067	90,619	76,370
Debt securities	24,776	28,178	22,961	33,238	35,587	40,481	1,443	867	786	59,457	64,633	64,227
Assets held for sale	0	0	0	0	0	0	156	236	87	156	236	87
Total financial assets measured at fair value	120,958	118,959	99,130	35,274	38,003	42,229	10,855	8,702	10,235	167,087	165,666	151,593

There were no transfers of debt securities of from level 1 to level 2 during the year (2016: £98m; 2015: nil).

(ii) Fair value hierarchy for liabilities measured at fair value in the statement of financial position

The table that follows presents an analysis of the SL Insurance Business' liabilities measured at fair value by level of the fair value hierarchy for each category as set out in Note 34 – Risk management.

	Fair value hierarchy											
	Level 1			Level 2			Level 3			Total		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
							(£m)					
Non-participating investment contract liabilities	0	0	0	104,379	101,993	92,820	0	0	0	104,379	101,993	92,820
Derivative financial liabilities	161	184	183	607	766	1,056	0	0	0	768	950	1,239
Total financial liabilities at fair value	161	184	183	104,986	102,759	93,876	0	0	0	105,147	102,943	94,059

There were no transfers between levels 1 and 2 during the year (2016: nil)

(iii) Reconciliation of movements in level 3 instruments

The movements during the year of level 3 assets and liabilities held at fair value, excluding assets and liabilities held for sale, are analysed below:

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
At 1 January 2017	6,653	7	939	867
Total (losses)/gains recognised in the income statement	490	0	39	35
Purchases	2,235	0	181	362
Issue	0	0	0	0
Disposal proceeds	(526)	0	(290)	(125)
Transfers in to level 3	0	0	8	28
Transfers out of level 3	0	0	(7)	(43)
Reclassification between investment property and debt securities	(319)	0	0	319
Foreign exchange adjustment	11	0	(15)	0
Total gains recognised in revaluation of owner occupied property within other comprehensive income	0	0	0	0
Transfer to assets held for sale*	(170)	(4)	0	0
Other	0	4	21	0
At 31 December 2017	8,374	7	875	1,443

As at 31 December 2017,of total gains, £428m (2016: £44m loss; 2015: £385m gain) were recognised in the income statement for assets and liabilities held at fair value classified as level 3 at year end.

Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

During 2017 income strips measured at £319m at 31 December 2016, which were previously included within investment property were reclassified as debt securities.

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
At 1 January 2016	8,437	31	894	786
Total (losses)/gains recognised in the income statement	(141)	0	89	33
Purchases	346	0	135	184
Issue	0	0	0	0
Disposal proceeds	(1,827)	(22)	(278)	(97)
Transfers in to level 3	0	0	65	0
Transfers out of level 3	0	0	(21)	(39)
Reclassification between investment property and debt securities	0	0	0	0
Foreign exchange adjustment	45	0	56	0
Total gains recognised in revaluation of owner occupied property within other comprehensive income	0	0	0	0
Transfer to assets held for sale*	(191)	(8)	0	0
Other	(16)	6	0	0
At 31 December 2016	6,653	7	939	867

Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

	Investment Property	Owner occupied property	Equity securities and interests in pooled investment funds	Debt securities
At 1 January 2015	8,087	118	920	518
Total (losses)/gains recognised in the income statement	387	0	86	1
Purchases	1,799	0	116	360
Issue	0	0	0	0
Disposal proceeds	(1,721)	(92)	(312)	(111)
Transfers in to level 3	0	0	24	48
Transfers out of level 3	0	0	0	(30)
Reclassification between investment property and debt securities	0	0	0	0
Foreign exchange adjustment	(10)	0	1	0
Total gains recognised in revaluation of owner occupied property within other comprehensive income	0	5	0	0
Transfer to assets held for sale*	0	0	0	0
Other	(104)	0	59	0
At 31 December 2015	8,437	31	894	786

Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

(iv) Significant unobservable inputs in level 3 instrument valuations

The table below identifies the significant unobservable inputs used in determining the fair value of level 3 instruments and quantifies the range of these inputs used in the valuation at the reporting date:

31 December 2017	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
Investment property and owner occupied property	8,312	Income capitalisation	Equivalent Yield	3.3% to 9.0% (5.2%)
			Estimated rental value per square metre	£32 to £1,716 (£326)
			Equivalent Yield	3.8% to 6.6% (5.1%)
			Estimated rental value per hotel room	£995 to £10,000 (£5,841)
Investment property and owner occupied property	69	Market comparison	Capital Value per unit (square metre)	£2 to £10,932 (£3,451)
Investment in equity securities and interests in pooled investment funds	875	Adjusted net asset value	Adjustment to net asset value[1]	N/A
Debt securities (commercial mortgages)	379	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (unquoted corporate bonds)	505	Discounted cash flow	Credit spread	0.7% to 2.1% (1.6%)
Debt securities (income strips)	520	Income capitalisation	Equivalent Yield	4.1% to 6.5% (5.1%)_
Debt securities (infrastructure loans)	39	Discounted cash flow	Credit spread	1.9% to 2.6% (2.3%)
Debt securities (other)	0	Single broker	Single broker indicative price[2]	N/A

31 December 2016	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
Investment property and owner occupied property	6,600	Income capitalisation	Equivalent Yield	3.60% to 9.1% (5.42%)
			Estimated rental value per square metre	£34 to £4,422 (£323)
			Equivalent Yield	4.60% to 7.10% (5.81%)
			Estimated rental value per hotel room	£995 – £13,750 (£4,209)
Investment property and owner occupied property	60	Market comparison	Capital Value per unit (square metre)	£2 to £12,807 (£4,209)
Investment in equity securities and interests in pooled investment funds	939	Adjusted net asset value	Adjustment to net asset value[1]	N/A
Debt securities (commercial	451	Discounted cash flow	Credit spread	1.9% to 2.6% (2.1%)

31 December 2016	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
mortgages)				
Debt securities (unquoted corporate bonds)	373	Discounted cash flow	Credit spread	0.2% to 4.3% (1.9%)
Debt securities (infrastructure loans)	11	Discounted cash flow	Credit spread	1.3% (1.3%)
Debt securities (other)	32	Single broker	Single broker indicative price(2)	N/A

31 December 2015	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
Investment property and owner occupied property	8,345	Income capitalisation	Equivalent Yield	2.1% to 15.5% (5.2%)
			Estimated rental value per square metre	£3 to £2,422 (£240)
			Equivalent Yield	4.6% to 7.2% (5.9%)
			Estimated rental value per hotel room	£995 to £13,748 (£5,632)
Investment property and owner occupied property	123	Market comparison	Capital Value per unit (square metre)	£2 to £14,604 (£4,246)
Equity securities and interests in pooled investment funds	894	Adjusted net asset value	Adjustment to net asset value(1)	N/A
Debt securities (commercial mortgages)	382	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (unquoted corporate bonds)	270	Discounted cash flow	Credit spread	0.2% to 4.0% (1.9%)
Debt securities (infrastructure loans)	0	Discounted cash flow	Credit spread	0
Debt securities (other)	134	Single broker	Single broker indicative price(2)	N/A

Notes:

(1) An adjustment is made is made to the valuations of private equity investments received from the investment managers of the underlying funds to estimate the effect of changes in market conditions between the date of their valuations and the end of the reporting period using market indices. The adjustment made at 31 December 2017 was £nil (2016: an increase of £40m).

(2) Debt securities which are valued using single broker indicative quotes are disclosed in level 3 in the fair value hierarchy. No adjustment is made to these prices.

(v) Sensitivity of the fair value of level 3 instruments to changes in key assumptions

The shareholder is directly exposed to movements in the value of level 3 instruments held by the shareholder business (to the extent they are not offset by opposite movements in investment and insurance contract liabilities). Movements in level 3 instruments held in other risk segments are offset by an opposite movement in investment and insurance contract liabilities and therefore the shareholder is not directly exposed to such movements unless they are sufficiently severe to cause the assets of the participating business to be insufficient to meet the obligations to policyholders.

Changing unobservable inputs in the measurement of the fair value of level 3 financial assets and financial liabilities to reasonably possible alternative assumptions would not have a significant impact on profit or on total assets. The alternative assumptions used in this assessment for debt securities are:

Reasonably possible alternative assumptions:

Unquoted corporate bonds	Credit spread +/- 0.45%
Commercial mortgages	Credit spread +/- 0.40%

Whilst not having an impact on profit for the year, the SL Insurance Business has also considered the plausible range for the fair value of the investment properties at 31 December 2017. Based on independent research that has considered the reasonableness of historic UK property values by comparing valuations with actual sales prices achieved a plausible range for the fair value of the SL Insurance Business' UK property portfolio, comprising over 90% of the SL Insurance Business' investment property portfolio is considered to be -4.8% to +8.3% of the 31 December valuation.

(e) Fair value of assets and liabilities measured at amortised cost

The table below presents estimated fair values of assets and liabilities whose carrying value does not approximate fair value. Fair values of assets and liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

	Note	As recognised in statement of financial position line item 2017	2017 Total Carrying value	2016 Total Carrying value	2015 Total Carrying value	2017 Fair Value	2016 Fair Value	2015 Fair Value
					(£m)			
Assets								
Loans secured by mortgages	18	57	57	72	87	64	86	84
Liabilities								
Non-participating investment contract liabilities		4	4	4	4	4	4	4
Subordinated liabilities	30	318	318	318	317	349	334	345

The estimated fair values of the instruments detailed above are calculated by discounting the expected future cash flows at current market rates, with the exception of subordinated liabilities, which are based on the quoted market offer price.

It is not possible to reliably calculate the fair value of participating investment contract liabilities. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and Notes 2 and 28. The carrying value of participating investment contract liabilities at 31 December 2017 was £15,314m (2016: £15,537; 2015: £14,716m). The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

	Level 2			Level 3			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
					(£m)				
Assets									
Loans secured by mortgages	64	86	84	0	0	0	64	86	84
Liabilities									
Non-participating investment contract liabilities	4	4	4	0	0	0	4	4	4
Subordinated liabilities	349	334	345	0	0	0	349	334	345

37. Contingent liabilities

(a) Annuity sales

As discussed in Note 32, at the request of the Financial Conduct Authority (FCA), Standard Life is conducting a past business review of non-advised annuity sales. The purpose of the review is to identify whether relevant customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and where appropriate provide redress to customers who have suffered loss as a result of not having received sufficient information. In relation to this review, the FCA is carrying out an investigation and it is possible that the FCA may impose a financial penalty on Standard Life. At this stage it is not possible to determine an estimate of the financial effect, if any, of this contingent liability.

Note 32 also provides disclosure of potential insurance recoveries relating to redress payable to customers, the costs of conducting the review and other related expenses. Any FCA levied financial penalties cannot be covered by such liability insurance.

(b) Legal proceedings and regulations

The SL Insurance Business, like other insurers, is subject to legal proceedings and complaints in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the directors do not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the SL Insurance Business.

The SL Insurance Business is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and it has complied with all the local solvency regulations. There are no contingencies associated with the SL Insurance Business' compliance or lack of compliance with these regulations.

38. Commitments

(a) Capital commitments

As at 31 December 2017, capital expenditure that was authorised and contracted for, but not provided and incurred, was £134m (2016: £290m ; 2015: £231m) in respect of investment property and income strips. Of this amount, £122m (2016: £224m; 2015: £204m) and £12m (2016: £66m; 2015: £27m) relates to contractual obligations to purchase, construct, or develop investment property and repair, maintain or enhance investment property respectively.

(b) Other financial commitments

The SL Insurance Business has £128m (2016: £154m; 2015: £110m) unrecognised financial commitments of which £93m relate to private equity (2016: £106m; 2015: £92m).

39. Related party transactions

(a) Transactions with and balances due from/to related parties

In the normal course of business, the SL Insurance Business enters into transactions with related parties that relate to the provision of staff, physical infrastructure and support services with SL Group companies not within the Transaction perimeter.

The following are details of such transactions in the three years ended 31 December 2017, 2016 and 2015:

	2017	2016	2015
		(£m)	
Revenue:			
Transactions with the SL Group	120	137	131
Total revenue	120	137	131
Expenses:			
Interest in relation to the subordinated loan (note 27)	54	54	54
Transactions with the SL Group	649	613	623
Total expenses	703	667	677

Transactions with the SL Group – revenue relate primarily to dividend and interest income from entities within the SL Group which are outside of the Transaction perimeter.

Transactions with the SL Group – expenses relate primarily to costs, which include interest, fund management fees and commission, recharged by entities within the SL Group which are outside of the Transaction perimeter.

Other transactions with related parties relate primarily to intercompany recharges from SLESL, which include staff costs and office accommodation costs.

The year end balances arising from transactions with related parties are as follows:

	2017	2016	2015
		(£m)	
Due from related parties:			
Amounts due from other related parties	36	56	100
Total due from related parties	36	56	100
Due to related parties:			
Amounts due to other related parties	73	67	117
Subordinated intercompany loan (note 27)	318	318	317
Total due to related parties	391	385	434

Amounts due from other related parties primarily relate to intercompany receivables.

Amounts due to other related parties primarily include intercompany payables to SLESL for staff and office accommodation costs.

(b) Compensaton of key management personnel

Key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the SL Insurance Business, comprised 8 people (2016: 12 people; 2015 8 people) and included all directors of the SL Insurance Business.

Compensation of key management personnel was:

	2017	2016	2015
		(£'000)	
Salaries and other short-term employee benefits	2,175	2,761	5,190
Post-employment benefits	107	1,201	1,021
Termination benefits	5	—	152
Share based payments	203	683	1,732
Compensation payments	419	—	14
Total compensation of key management personnel	2,909	4,645	8,109

A number of the key management personnel of the SL Insurance Business are also key management personnel of other entities within the Standard Life Group. However, for the purposes of this note an apportionment of the total compensation paid to the key management personnel of the SL Insurance Business by the Group has been made based on an estimate of the services rendered to the SL Insurance Business.

40. Transaction perimeter

The particulars of the significant legal entities transferring to Phoenix as part of the Transaction are as follows:

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
Standard Life Assurance Limited	United Kingdom	Ordinary Shares	100.0%
Vebnet (Holdings) Limited	United Kingdom	Ordinary Shares	100.0%
Standard Life International Designated Activity Company	Ireland	Ordinary Shares	100.0%
Standard Life Investment Funds Ltd	United Kingdom	Ordinary Shares	100.0%
Standard Life Lifetime Mortgages Ltd	United Kingdom	Ordinary Shares	100.0%
Standard Life Pension Funds Ltd	United Kingdom	N/A	100.0%

Other significant holdings in funds are as follows:

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
Crawley Unit Trust	Jersey	Unit Trust	100.0%
Emerging Markets Debt Fund	United Kingdom	OEIC	86.4%
European Strategic Partners	United Kingdom	Limited Partnership	72.7%
European Strategic Partners II	United Kingdom	Limited Partnership	68.8%
European Trust 2	United Kingdom	Unit Trust	100.0%
Global Absolute Return Strategies	Luxembourg	SICAV	80.6%
Global Emerging Markets Equity Fund	Luxembourg	SICAV	96.9%
Japanese Equity Growth Fund	Luxembourg	SICAV	96.0%
Multi Asset Trust	United Kingdom	Unit Trust	100.0%
MyFolio Managed I Fund	United Kingdom	OEIC	62.1%
MyFolio Managed II Fund	United Kingdom	OEIC	63.6%
MyFolio Managed III Fund	United Kingdom	OEIC	73.9%
MyFolio Managed Income III Fund	United Kingdom	OEIC	51.0%
MyFolio Managed Income V Fund	United Kingdom	OEIC	57.5%
MyFolio Managed IV Fund	United Kingdom	OEIC	60.3%
MyFolio Managed V Fund	United Kingdom	OEIC	68.5%
MyFolio Market III Fund	United Kingdom	OEIC	61.5%
MyFolio Market IV Fund	United Kingdom	OEIC	60.6%
MyFolio Market V Fund	United Kingdom	OEIC	69.6%
MyFolio Multi-Manager I Fund	United Kingdom	OEIC	53.6%
MyFolio Multi-Manager II Fund	United Kingdom	OEIC	54.0%
MyFolio Multi-Manager III Fund	United Kingdom	OEIC	60.1%

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Held
MyFolio Multi-Manager Income III Fund	United Kingdom	OEIC	50.1%
MyFolio Multi-Manager Income V Fund	United Kingdom	OEIC	54.8%
MyFolio Multi-Manager IV Fund	United Kingdom	OEIC	53.8%
North American Strategic Partners (Feeder) 2006	United Kingdom	Limited Partnership	69.8%
North American Strategic Partners (Feeder) 2008 LP	United Kingdom	Limited Partnership	100.0%
SCV Emerging Market Corporate Bond	Luxembourg	SICAV	88.0%
SCV Euro Government All Stocks Fund	Luxembourg	SICAV	100.0%
SCV European Equities Fund-	Luxembourg	SICAV	69.6%
SCV European Equity Unconstrained Fund	Luxembourg	SICAV	85.6%
SCV Global Bond Fund	Luxembourg	SICAV	71.7%
SCV Global Emerging Markets Equity Unconstrained	Luxembourg	SICAV	87.4%
SCV Global Equities Fund	Luxembourg	SICAV	86.9%
SCV Global REIT Focus Fund	Luxembourg	SICAV	87.0%
SCV India Equities Fund	Luxembourg	SICAV	63.6%
SCV Japanese Equities Fund	Luxembourg	SICAV	97.0%
SCV Global Focused Strategies Fund	Luxembourg	SICAV	56.9%
Seabury Assets Fund plc (Fund No 1)	Ireland	OEIC	63.3%
Short Dated UK Government Bond Fund	United Kingdom	Unit Trust	100.0%
SLDT – Strategic Bond Fund	United Kingdom	Unit Trust	53.4%
SLI (Global Liquidity Funds) – Euro VNAV Liquidity Fund	Ireland	OEIC	100.0%
SLI (Global Liquidity Funds) – Sterling VNAV Liquidity Fund	Ireland	OEIC	98.9%
SLI UK Retail Park Trust	Jersey	Unit Trust	56.6%
SLIC – UK Opportunities	United Kingdom	OEIC	67.5%
SLIC II – Corporate Debt Fund	United Kingdom	OEIC	100.0%
SLIC-Emerging Markets Equity Fund	United Kingdom	OEIC	87.1%
SLTM – Standard Life UK Corporate Bond	United Kingdom	Unit Trust	100.0%
SLTM – Standard Life UK Government Bond	United Kingdom	Unit Trust	100.0%
Standard Life Active Plus Bond Trust	United Kingdom	Unit Trust	100.0%
Standard Life Enhanced Diversification Growth Fund	United Kingdom	OEIC	98.0%
Standard Life Europe	United Kingdom	OEIC	100.0%
Standard Life European Ethical Equity Fund	United Kingdom	OEIC	89.3%
Standard Life European Private Equity Trust plc	United Kingdom	Ordinary Shares	56.3%
Standard Life European Trust	United Kingdom	Unit Trust	98.2%
Standard Life Global Equity Trust II	United Kingdom	Unit Trust	100.0%
Standard Life International Trust	United Kingdom	Unit Trust	100.0%
Standard Life Japan Trust	United Kingdom	Unit Trust	78.4%
Standard Life North American Trust	United Kingdom	Unit Trust	99.8%
Standard Life Pacific Basin Trust	United Kingdom	Unit Trust	98.1%
Standard Life Pan European Trust	United Kingdom	Unit Trust	100.0%
Standard Life Investments Global Real Estate Fund	United Kingdom	Unit Trust	55.0%
Standard Life UK Equity General Trust	United Kingdom	Unit Trust	99.8%
UK Property Companies	United Kingdom	Ordinary Shares	100.0%
European Strategic Partners General Partner	United Kingdom	Limited Partnership	50.0%
Gallions Reach Shopping Park Unit Trust	Jersey	Unit Trust	100.0%
MyFolio Multi-Manager V Fund	United Kingdom	OEIC	51.0%
SCV Absolute Return Global Bond Strategies	Luxembourg	SICAV	62.8%
SCV Global Emerging Markets Local Currency Debt	Luxembourg	SICAV	71.5%
SCV Global High Yield Bond	Luxembourg	SICAV	78.2%
SLIC II – SLI Ethical Corporate Bond Fund	United Kingdom	OEIC	66.8%
Global REIT Fund	Luxembourg	SICAV	55.0%
SCV Global Corporate Bond Fund-SH8B-8B USD	Luxembourg	SICAV	61.2%
Castlepoint Centre Limited Partnership	United Kingdom	Limited Partnership	50.0%
Gallions Reach Shopping Park Limited Partnership	United Kingdom	Limited Partnership	100.0%
SLI Global SICAV II Global Short Duration Corporate Bond Fund	Luxembourg	SICAV	80.4%
SICAV China Equities Fund-SR-CE	Luxembourg	SICAV	50.1%
Standard Life Investments Short Dated Corporate Bond Fund	United Kingdom	OEIC	50.1%
American Equity Income Fund	United Kingdom	OEIC	65.3%
American Equity Unconstrained Fund	United Kingdom	OEIC	52.8%
Standard Life Investments GS (Mauritius Holdings) Limited	Mauritius	Ordinary Shares	100.0%
SLMT American Equity Unconstrained Fund	UK	OEIC	100.0%

41. IFRS 1 opening balances disclosure

As the SL Insurance Business has not previously prepared standalone financial statements, this Historical Financial Information is the first IFRS financial statements of the SL Insurance Business. Accordingly, an opening combined balance sheet as at 1 January 2015 has been presented below.

	Note	2014
		(£m)
Assets		
Intangible assets	10	44
Deferred acquisition costs	11	657
Investment property	12	8,087
Property and equipment	13	118
Pension and other post-retirement benefit assets	28	760
Deferred tax assets	8	
Reinsurance assets	25	6,033
Loans		471
Derivative financial assets		3,998
Equity securities and interests in pooled investment funds		74,266
Debt securities		63,054
Receivables and other financial assets		994
Other assets		271
Assets held for sale		971
Cash and cash equivalents		10,345
Total assets		**170,077**
Net Investment		
Net Parent Investment	22	1,983
Subordinated notes	23	502
Non-controlling interests	24	283
Total Net Investment		**2,768**
Liabilities		
Non-participating insurance contract liabilities	25	21,517
Non-participating investment contract liabilities	25	88,145
Participating contract liabilities	25	31,236
Deposits received from reinsurers		5,642
Third party interest in consolidated funds		13,616
Subordinated liabilities		611
Pension and other post-retirement benefit provisions	28	44
Deferred income		271
Current tax liabilities		147
Deferred tax liabilities	14	175
Derivative financial liabilities		1,673
Other financial liabilities		3,180
Other liabilities		91
Liabilities held for sale		961
Total liabilities		**167,309**
Total equity and liabilities		**170,077**

42. Events after the reporting period

On 23 February 2018 Standard Life Aberdeen plc announced the sale of the majority of the Pensions and Savings business, which includes the disposal of Standard Life Assurance Limited, to Phoenix Group Holdings (Phoenix), conditional on shareholder and relevant regulatory approvals.

Under the transaction the UK retail platforms, including Wrap and Elevate, the advice subsidiaries and UK and Ireland staff pension scheme assets and liabilities are retained by Standard Life Aberdeen plc.

Standard Life Aberdeen plc and Phoenix have also agreed to significantly expand their existing long-term strategic partnership whereby Standard Life Aberdeen plc becomes Phoenix's long-term asset management partner for the business acquired by Phoenix and the existing arrangements between the parties under which Aberdeen Standard Investments manages £48 billion of assets for Phoenix have been extended.

PART C: ACCOUNTANT'S REPORT

The Directors
Phoenix Group Holdings
c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY-1104, Cayman Islands

30 May 2018

Ladies and Gentlemen,

Phoenix Group Holdings

We report on the financial information set out on pages 193 to 301 of the combined Class 1 circular and prospectus dated 30 May 2018 of Phoenix Group Holdings for the three years ended 31 December 2017. This financial information has been prepared on the basis of the accounting policies set out in note 1.1. This report is required by paragraph 13.5.21R of the Listing Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Phoenix Group Holdings are responsible for preparing the financial information on the basis of preparation set out in note 1.1(a) to the financial information and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law, we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6) and paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the combined Class 1 circular and prospectus.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Class 1 circular and prospectus dated 30 May 2018, a true and fair view of the state of affairs of the Standard Life Insurance Business as at 31 December 2017, 31 December 2016 and 31 December 2015 and of its profits, cash flows and changes in equity for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 in accordance with the basis of preparation set out in note 1.1(a) and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1.1.

Declaration

For the purposes of Prospectus Rule 5.5.3R(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 contain no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

PART X—OPERATING AND FINANCIAL REVIEW OF STANDARD LIFE ASSURANCE

The following operating and financial review is intended to convey the Directors' perspective on the operating performance and financial condition of Standard Life Assurance from 1 January 2015 to 31 December 2017. The discussion should be read in conjunction with the rest of this document and the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015, which is set out in Part IX ("Financial Information of Standard Life Assurance") of this document. The following discussion contains forward-looking statements that involve risks and uncertainties that could cause the actual results of Standard Life Assurance to differ from those expressed or implied by such forward-looking statements. These risks and uncertainties are discussed in the section of this document headed "Risk Factors" and elsewhere in this document. See "Cautionary note regarding forward-looking statements" in the section of this document headed "Important Information".

The discussion contained herein relates to, and all financial information has been extracted without material adjustment from, the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015, which is set out in Part IX ("Financial Information of Standard Life Assurance") of this document. Standard Life Assurance has not comprised a separate legal entity or group of entities for the years ended 31 Decembeer 2017, 2016 and 2015. The combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015, which has been prepared specifically for the purpose of this document, has been prepared on a basis that combines the results, assets and liabilities, and cash flows of Standard Life Assurance by applying the principles underlying the consolidation procedures relating to the elimination of intercompany transactions under IFRS 10 'Consolidated Financial Statements' for each of the three years ended 31 December 2017, 2016 and 2015 and as at these dates. On such basis, the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 sets out the combined balance sheet as at 31 December 2017, 2016 and 2015 and the results of operations and cash flows for the three years then ended.

The combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 has been prepared in accordance with the requirements of the Listing Rules and in accordance with the basis of preparation set out in Part IX ("Financial Information of Standard Life Assurance"). It has been prepared in accordance with IFRS as adopted by the European Union and the IFRS Interpretation Committee interpretations, except as described in Part IX ("Financial Information of Standard Life Assurance").

This section also includes a discussion of Standard Life Assurance's liquidity and capital resources.

Key factors affecting Standard Life Assurance's results of operations and comparability

The following paragraphs describe the key factors which have affected the results of operations of Standard Life Assurance during the period from 1 January 2015 to 31 December 2017 and/or which may affect the results of operations of Standard Life Assurance in subsequent periods.

Mortality and longevity

The results of operations and cashflows from Standard Life Assurance may be affected by changes in mortality and longevity rates. Increased longevity rates result in pay-outs to holders of annuities over a longer period. The business 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.

Annual management charges

The results of operations and cashflows from Standard Life Assurance may be affected by the changes in levels of Assets under Administration ("**AUA**") and the impact such changes have on annual management charges. An increase in AUA will lead to an increase in annual management charges levels. Changes in AUA are driven by a combination of market movements and net flows from customers.

Provision for annuity sales practices relating to enhanced annuities

On 14 October 2016, the FCA published a further report on its thematic review of non-advised annuity sales practices (TR16/7). SLAL was a participant in that review. The FCA looked at whether firms provided sufficient information to their customers about their potential eligibility for enhanced

annuities. For further information on the thematic review on annuity sales practices, see the risk factor entitled "*The thematic review on annuity sales practices may affect the Group's business*" in the section of this document headed "*Risk Factors*".

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

SLAL has provided for an estimate of the redress payable to SLAL annuity customers, as well as the costs of conducting the review and other related costs and expenses. The provision in respect of this was £248 million at 31 December 2017 (£175 million as at 31 December 2016).

SLAL has in place liability insurance and is seeking up to £100 million (after accounting for any excess) of the financial impact of the provision to be mitigated by this insurance. SLAL is currently in discussions with its insurers and, as a result, no insurance recovery has been recognised as an asset in the 2017 annual accounts.

Standard Life Assurance expects the majority of the outflows associated with this provision, including outflows relating to establishing any reserves for future annuity payments, to have occurred by mid-2019.

Asia and emerging market operations

Following a strategic review, SLIDAC's Asia and emerging markets operations were closed in 2014 and 2015. The Dubai branch was closed in November 2014 and the Singapore branch was closed in June 2015. The loss arising from this in SLIDAC's accounts was £42 million in 2015.

Description of key line items

The following descriptions of key line items in the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 are relevant to the discussion of Standard Life Assurance's results of operations.

Premiums

Premiums received on insurance contracts and participating investment contracts are recognised as revenue when due for payment, except for unit-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue on the income statement.

Fees

All fees related to unit-linked non-participating investment contracts are deemed to be associated with the provision of investment management services. Fees related to the provision of investment management services and administration services are recognised as the services are provided. Front-end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life of the contract. Ongoing fees that are charged periodically, either directly or by making a deduction from invested funds, are recognised as received, which corresponds to when the services are provided.

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable that Standard Life Assurance will be required to render further services during the life of the policy, the commission is deferred as a liability and is recognised as the services are provided.

Other fee income is related to the development and distribution of technology for the management and administration of employee benefits and the provision of management services are stated net of VAT. Fee income deriving from support contracts and fixed term licences are recognised over the relevant contract periods. Fee income deriving from the delivery of professional services is calculated with reference to the value of the work performed to date as a proportion of total contract value.

Fee income deriving from the supply of other goods and services is recognised following the provision of goods and services.

Investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as fair value through profit or loss ("**FVTPL**"), including investment income received are recognised in the income statement in the period in which they occur. The gains and losses include investment income received such as interest payments, but excludes dividend income. Dividend income is recognised in the income statement when the right to receive payment is established.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted such as rent free periods are recognised as an integral part of the total rental income and are spread over the term of the lease.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the income statement.

Interest income on loans and receivables is separately recognised in the income statement using the effective interest rate method.

Claims and benefits paid

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the income statement.

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the insurance liability. Death claims and all other claims are accounted for when notified.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the income statement.

Change in insurance and participating investment contract liabilities

The change in insurance and participating investment contract liabilities comprising the full movement in the corresponding liabilities during the period is recognised in the income statement.

Change in investment contract liabilities

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the income statement as changes in investment contract liabilities.

Change in unallocated divisible surplus ("UDS")

The change in UDS recognised in the income statement comprises the movement in the UDS during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the income statement as it is also recognised in other comprehensive income.

Change in third party interest in consolidated funds

When Standard Life Assurance is considered to control an investment vehicle, such as an open-ended investment company, a unit trust or limited partnership, and it is therefore consolidated, the interests of parties other than Standard Life Assurance are assessed to determine whether they should be classified as liabilities or as non-controlling interests. The liabilities are recognised in third party interest in consolidated funds line in the combined statement of financial position and any movements are recognised in the combined income statement. The financial liability is designated at fair value through profit or loss as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets. The interests of parties other than Standard Life Assurance in all other types of entities are recorded as non-controlling interests.

Expenses under arrangements with reinsurers

Standard Life Assurance has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within its Heritage With Profits Fund. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with Standard Life

Assurance. Interest is payable on the deposit at a floating rate. Standard Life Assurance maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by Standard Life Assurance from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically Standard Life Assurance is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to these expenses under arrangements with reinsurers.

Administrative expenses

Administrative expenses comprise expenses relating to management expenses, salaries for employers, commission expenses, investment management expenses, deferral and amortisation of acquisition costs. Administrative expenses are recognised on an accruals basis.

Finance costs

Finance costs primarily relate to interest payable on the MACS liability. For further information on the MACS, see the section headed "*Description of certain other indebtedness—The MACS*" below in this Part X ("*Operating and Financial Review of Standard Life Assurance*") of this document.

Results of operations of Standard Life Assurance for the years ended 31 December 2017, 2016 and 2015

The table below sets forth Standard Life Assurance's combined results of operations for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	2016	2015
		(£ million)	
Revenue			
Gross earned premium	2,099	2,030	2,169
Premium ceded to reinsurers	(45)	(46)	(91)
Net earned premium	**2,054**	**1,984**	**2,078**
Investment return	12,801	15,421	5,148
Fee income	633	619	600
Other income	28	30	43
Total net revenue	**15,516**	**18,054**	**7,869**
Expenses			
Claims and benefits paid	4,397	4,766	4,542
Claim recoveries from reinsurers	(480)	(492)	(581)
Net insurance benefits and claims	3,917	4,274	3,961
Change in reinsurance assets	567	126	563
Change in insurance and participating contract liabilities	(1,392)	2,064	(1,767)
Change in non-participating investment contract liabilities	8,873	8,776	3,376
Change in unallocated divisible surplus	61	106	(108)
Change in third party interest in consolidated funds	1,537	443	287
Expenses under arrangements with reinsurers	202	509	42
Administrative expenses	1,075	1,045	1,159
Provision for annuity sales practices	100	175	—
Finance costs	25	25	27
Total expenses	**14,965**	**17,544**	**7,540**
Profit before tax	**551**	**510**	**329**
Tax expense attributable to policyholders' returns	159	233	80
Profit before tax attributable to equity holders profits	**392**	**277**	**249**
Total tax expense	207	271	120
Less: Tax expense attributable to policyholders' returns	(159)	(233)	(80)
Tax expense attributable to shareholders' profits	48	38	40
Profit for the year	**344**	**239**	**209**
Attributable to:			
Net parent investment	286	160	130
Non-controlling interest – Subordinated notes	34	34	34
Non-controlling interest – Other	24	45	45
Total profit attributable to holders	**344**	**239**	**209**

All results derive from continuing operations.

Net earned premium

Net earned premiums increased by £70 million, or 4 per cent., to £2,054 million for the year ended 31 December 2017 from £1,984 million for the year ended 31 December 2016. This increase was primarily due to an increase in premium income from the offshore bond product, which had recorded lower premium income in 2016.

Net earned premiums decreased by £94 million, or 5 per cent., to £1,984 million for the year ended 31 December 2016 from £2,078 million for the year ended 31 December 2015. The decrease principally reflects the lower 2016 premium income from the offshore bond product noted above.

Investment return

The table below sets forth a breakdown of Standard Life Assurance's net investment return for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
	2017	2016	2015
		(£ million)	
Financial instruments other than those at FVTPL			
Interest income			
Cash and cash equivalents	48	79	82
Loans	36	22	22
Other	2	6	7
	86	107	111
Impairment losses on subsidiaries	—	—	—
Foreign exchange losses on instruments other than at FVTPL	(73)	(90)	21
Gains on financial instruments other than those at FVTPL	**13**	**27**	**132**
Financial instruments at FVTPL			
Dividend income	2,225	2,033	1,960
Gains/(losses) on financial instruments held at FVTPL[1]			
Equity securities and interests in pooled investment funds	8,686	9,911	1,315
Debt securities	1,287	6,914	(222)
Derivative financial instruments	(354)	(3,702)	1,168
Loans	26	9	3
Assets held for sale	(2)	1	—
	9,643	13,134	2,264
Gains on financial instruments held at FVTPL	**11,868**	**15,166**	**4,224**
Investment property			
Rental income	430	369	405
Net fair value gains/(losses) on investment property	490	(141)	387
	920	228	792
Total investment return	**12,801**	**15,421**	**5,148**

Note:

(1) Gains/(losses) including interest income, excluding dividend income.

Investment return decreased by £2,620 million, or 17 per cent., to £12,801 million for the year ended 31 December 2017 from £15,421 million for the year ended 31 December 2016. Whilst investment return was positive in both periods, the reduction in 2017 was due to the reduction in yields being lower in 2017 than in 2016, generating a smaller fair value gain on debt securities.

Investment return increased by £10,273 million to £15,421 million for the year ended 31 December 2016 from £5,148 million for the year ended 31 December 2015. The increase reflects positive equity performance in the period, generating fair value gains on equity securities and interests in pooled investment funds, and the impact of a reduction in yields, which generated fair value gains on debt securities respectively.

Fee income

Fee income increased by £14 million, or 2 per cent., to £633 million for the year ended 31 December 2017 from £619 million for the year ended 31 December 2016. This increase principally reflects the growth in annual management charges in line with increasing AUA.

Fee income increased by £19 million, or 3 per cent., to £619 million for the year ended 31 December 2016 from £600 million for the year ended 31 December 2015. The increase principally reflects the growth in annual management charges in line with increasing AUA.

Other income

Other income decreased by £2 million, or 7 per cent., to £28 million for the year ended 31 December 2017 from £30 million for the year ended 31 December 2016. Other income decreased by £13 million, or 30 per cent., to income of £30 million for the year ended 31 December 2017 from income of £43 million for the year ended 31 December 2016.

Total net revenue

As a result of the foregoing factors, total net revenue of Standard Life Assurance decreased by £2,538 million, or 14 per cent., to £15,516 million for the year ended 31 December 2017 from £18,054 million for the year ended 31 December 2016. Total net revenue of Standard Life Assurance increased by £10,185 million to £18,054 million for the year ended 31 December 2016 from £7,869 million for the year ended 31 December 2015.

Net insurance benefits and claims

Net insurance benefits and claims decreased by £357 million, or 8 per cent., to £3,917 million for the year ended 31 December 2017 from £4,274 million for the year ended 31 December 2016. This decrease was primarily due to claims in the UK business reducing over time due to a reduction in the size of Standard Life Assurance's older style book of business.

Net insurance benefits and claims increased by £313 million, or 8 per cent., to £4,274 million for the year ended 31 December 2016 from £3,961 million for the year ended 31 December 2015. The increase principally reflects higher maturities in the Germany Heritage With Profits Fund in 2016.

Change in reinsurance assets

Change in reinsurance assets increased by £441 million to a £567 million reduction in reinsurance assets for the year ended 31 December 2017 from a £126 million reduction for the year ended 31 December 2016. As the reinsurance business runs off a reduction in reinsurance assets is expected. However, in 2016 the reduction was somewhat offset by the relatively large reduction in yields in 2016.

Change in reinsurance assets decreased by £437 million to a £126 million reduction in reinsurance assets for the year ended 31 December 2016 from £563 million for the year ended 31 December 2015. As noted above a reduction in reinsurance assets is expected as the business runs off but the reduction in 2016 was somewhat offset by the relatively large reduction in yields in 2016.

Change in insurance and participating contract liabilities

Change in insurance and participating contract liabilities increased by £3,456 million to a credit of £1,392 million for the year ended 31 December 2017 from a debit of £2,064 million for the year ended 31 December 2016.

Change in insurance and participating contract liabilities decreased by £3,831 million to a debit of £2,064 million for the year ended 31 December 2016 from a credit of £1,767 million for the year ended 31 December 2015.

The change in insurance and participating contract liabilities line includes the impact of net outflows in this older class of business leading to a decrease in liabilities. In 2016, the impact of net outflows was offset by the impact of higher investment gains and the relatively large yield reduction leading to an increase in liabilities.

Change in non-participating investment contract liabilities

Change in non-participating investment contract liabilities increased by £97 million, or 1 per cent., to £8,873 million for the year ended 31 December 2017 from £8,776 million for the year ended 31 December 2016.

Change in non-participating investment contract liabilities increased by £5,400 million to £8,776 million for the year ended 31 December 2016 from £3,376 million for the year ended 31 December 2015.

These increases were primarily due to investment performance on the assets underlying the non-participating investment contract business.

Change in unallocated divisible surplus

Change in unallocated divisible surplus decreased by £45 million, or 42 per cent., to £61 million for the year ended 31 December 2017 from £106 million for the year ended 31 December 2016.

Change in unallocated divisible surplus decreased by £214 million to a debit of £106 million for the year ended 31 December 2016 from a credit of £108 million for the year ended 31 December 2015.

Change in third party interest in consolidated funds

Change in third party interest in consolidated funds increased by £1,093 million to £1,537 million for the year ended 31 December 2017 from £444 million for the year ended 31 December 2016.

Change in third party interest in consolidated funds increased by £157 million, or 54 per cent., to £444 million for the year ended 31 December 2016 from £287 million for the year ended 31 December 2015.

These increases were primarily due to the impact of positive investment return which enhanced the third party share of the consolidated investment funds.

Expenses under arrangements with reinsurers

Expenses under arrangements with reinsurers decreased by £307 million, or 60 per cent., to £202 million for the year ended 31 December 2017 from £509 million for the year ended 31 December 2016. This relates to the deposit back arrangement with Canada Life and equates to passing back to Canada Life the investment return on the debt securities in the deposit back. The decrease in 2017 is due to 2016 having higher investment return on the debt securities in the deposit back, due to the higher reduction in yields in 2016.

Expenses under arrangements with reinsurers increased by £467 million to £509 million for the year ended 31 December 2016 from £42 million for the year ended 31 December 2015. The increase in 2016 is due to the reduction in yields in 2016.

Administrative expenses

Administrative expenses increased by £30 million, or 3 per cent., to £1,075 million for the year ended 31 December 2017 from £1,045 million for the year ended 31 December 2016.

Administrative expenses decreased by £114 million to £1,045 million for the year ended 31 December 2016 from £1,159 million for the year ended 31 December 2015. The decrease principally reflects lower commission expenses, investment management expenses and staff costs in 2016.

Provision for annuity sales practices

In the year ended 31 December 2016 a provision of £175 million was created as the FCA's review into the sale of non-advised annuities determined that some of the sales that Standard Life Assurance made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity.

The provision for historic annuity sales practices increased by £100 million in the year ended 31 December 2017, following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018.

Finance costs

Finance costs were £25 million for the years ended 31 December 2017 and 31 December 2016.

Finance costs decreased by £2 million to £25 million for the year ended 31 December 2016 from £27 million for the year ended 31 December 2015.

Profit before tax

As a result of the foregoing factors, Standard Life Assurance's profit before tax increased by £41 million, or 8 per cent., to £551 million for the year ended 31 December 2017 from £510 million for the year ended 31 December 2016.

Standard Life Assurance's profit before tax increased by £181 million, or 55 per cent., to £510 million for the year ended 31 December 2016 from £329 million for the year ended 31 December 2015.

Total tax expense

Total tax expense decreased by £64 million, or 24 per cent., to £207 million for the year ended 31 December 2017 from £271 million for the year ended 31 December 2016. The decrease principally reflects a lower policyholder tax charge in line with the reduction in investment return in 2017.

Total tax expense increased by £151 million to £271 million for the year ended 31 December 2016 from £120 million for the year ended 31 December 2015. The increase principally reflects a higher policyholder tax charge in line with the increase in investment return in 2016.

Profit for the year attributable to net parent investment

As a result of the foregoing factors, the profit for the year attributable to the owners of Standard Life Assurance increased by £126 million, or 79 per cent., to £286 million for the year ended 31 December 2017 from £160 million for the year ended 31 December 2016. Profit for the year attributable to the owners of Standard Life Assurance increased by £30 million, or 23 per cent., to £160 million for the year ended 31 December 2016 from £130 million for the year ended 31 December 2015.

Profit for the year attributable to Non-controlling interest – Subordinated notes

Profit for the year attributable to the subordinated notes remained constant at £34 million in the years ended 31 December 2017, 31 December 2016 and 31 December 2015. The subordinated notes have been classified as non-shareholders' equity under IFRS with interest payments being treated as an appropriation of profit attributable to holders of the notes.

Profit for the year attributable to Non-controlling interest – Other

Non-controlling interest decreased by £21 million to £24 million for the year ended 31 December 2017 from £45 million for the year ended 31 December 2016. This item is driven by the performance of investment funds in which third parties have a holding.

Non-controlling interest was £45 million for the year ended 31 December 2016 and for the year ended 31 December 2015. This item is driven by the performance of investment funds in which third parties have a holding.

Operating profit for Standard Life Assurance for the years ended 31 December 2017, 2016 and 2015

Operating profit as presented by Standard Life Assurance is a non-GAAP financial measure and is not a measure of financial performance under IFRS. Standard Life Assurance presents operating profit because it is less affected by short-term external market impacts than IFRS measures of performance and therefore in Standard Life Assurance's view it provides a better basis for assessing trends in the operational performance of Standard Life Assurance 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 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 financial statements as indicators of financial performance. As it is not determined in accordance with IFRS, operating profit 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 adjusted profit.

Operating profit is presented before the deduction of the following non-operating items:

- amortisation and impairment of acquired intangible assets;
- finance costs attributable to owners;
- provision for annuity sales practices;

- other non-operating items, which include:
  - gains or losses on the disposal of subsidiaries, associates or joint ventures;
  - the financial impacts of mandatory regulatory change;
  - integration, restructuring or other significant one-off projects; and
  - any other items which, in the Directors' view, should be excluded by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

For a reconciliation of operating profit to IFRS profit for the year attributable to owners, see the section headed "*Reconciliation of Standard Life Assurance's operating profit for the years ended 31 December 2017, 2016 and 2015*" of this Part X ("*Operating and Financial Review of Standard Life Assurance*").

Analysis of Standard Life Assurance's operating profit

The following table is an analysis of Standard Life Assurance's operating profit for the years ended 31 December 2017, 2016 and 2015:

	Year ended 31 December		
	2017	**2016**	**2015**
		(£ million)	
Fee based revenue	790	748	704
Spread/risk margin	148	110	129
Operating income	938	858	833
Operating expenses	(611)	(548)	(550)
Capital management	39	53	43
Operating profit before adjusting items	**366**	**363**	**326**

Fee based revenue

Fee based revenue increased by £42 million, or 6 per cent., to £790 million for the year ended 31 December 2017 from £748 million for the year ended 31 December 2016, benefitting from higher opening AUA due to net inflows and market movements.

Fee based revenue increased by £44 million, or 6 per cent., to £748 million for the year ended 31 December 2016 from £704 million for the year ended 31 December 2015, benefitting from higher opening AUA.

Spread/risk margin

Spread/risk margin increased by £38 million, or 35 per cent., to £148 million for the year ended 31 December 2017 from £110 million for the year ended 31 December 2016. The increase was largely driven by the impact of operating assumption and actuarial reserving changes in the UK which provided a £79 million benefit (2016: £38 million), primarily from mortality assumption changes. The Europe spread/risk result was impacted by adverse mortality experience in Ireland and refinements to Standard Life Assurance's reserving methodology in Germany.

Spread/risk margin decreased by £19 million, or 15 per cent., to £110 million for the year ended 31 December 2016 from £129 million for the year ended 31 December 2015. In the UK, operating assumption and actuarial reserving changes provided a benefit of £38 million (2015: £43 million), primarily relating to mortality assumption changes. The 2016 result included the benefit of a £22 million payment from the HWPF relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II. This benefit was offset by reductions in other components of the spread/risk result, some of which are one-off or volatile in nature.

Operating expenses

Operating expenses increased by £63 million, or 11 per cent., to £611 million for the year ended 31 December 2017 from £548 million for the year ended 31 December 2016. The 2017 result includes a £31 million impairment of intangible assets, which arose due to the discontinuation of part of an IT

transformation project and a £16 million cost of specific remediation. Investment expenses payable to Aberdeen Standard Investments also increased by £9 million in line with higher AUA.

Operating expenses reduced by £2 million to £548 million for the year ended 31 December 2016 from £550 million for the year ended 31 December 2015.

Capital management

The capital management result decreased by £14 million, or 26 per cent., to £39 million for the year ended 31 December 2017 from £53 million for the year ended 31 December 2016. The decrease is attributable to a lower expected return on the assets backing subordinated debt and a reduction in the IAS 19 Pension Scheme net interest credit, reflecting lower opening yields.

The capital management result increased by £10 million, or 23 per cent., to £53 million for the year ended 31 December 2016 from £43 million for the year ended 31 December 2015. The increase is as a result of favourable movements in the IAS 19 Pension Scheme net interest credit, reflecting the higher opening pension scheme surplus in the UK defined benefit scheme.

Reconciliation of Standard Life Assurance's operating profit for the years ended 31 December 2017, 2016 and 2015

The following table reconciles Standard Life Assurance's operating profit before tax to IFRS profit after tax for the years ended 31 December 2017, 2016 and 2015:

	Year ended 31 December		
	2017	2016	2015
		(£ million)	
Operating profit before adjusting items	**366**	**363**	**326**
Adjusted for the following items:			
Investment return variances and economic assumption changes on long-term business	135	50	8
Variance on owners' funds	(3)	26	(7)
Provision for annuity sales practices	(100)	(175)	—
Other	(10)	(12)	(103)
Profit before finance costs attributable to owners	**388**	**252**	**224**
Finance costs attributable to owners	(20)	(20)	(20)
Profit attributable to non-controlling interests – other	24	45	45
Profit before tax attributable to equity holders profits	**392**	**277**	**249**
Shareholder tax	(48)	(38)	(40)
Profit after tax attributable to net investment	**344**	**239**	**209**

Investment return variances and economic assumption changes

Investment return variances and economic assumption changes increased by £85 million to £135 million for the year ended 31 December 2017 from £50 million for the year ended 31 December 2016. This variance largely relates to investment variances on assets and liabilities in relation to Standard Life Assurance's annuity business.

Investment return variances and economic assumption changes increased by £42 million to £50 million for the year ended 31 December 2016 from £8 million for the year ended 31 December 2015. This variance largely relates to investment variances on assets and liabilities in relation to Standard Life Assurance's annuity business.

Variance on owners' funds

Variance on owners' funds decreased by £29 million to a negative variance on owners' funds of £3 million for the year ended 31 December 2017 compared to a positive variance on owners' funds of £26 million for the year ended 31 December 2016. The 2016 result was favourable due to the

relatively large reduction in yields in 2016, which gave investment gains on the assets backing subordinated debt.

Variance on owners' funds increased by £33 million to a positive variance on owners' funds of £26 million for the year ended 31 December 2016 as compared to a negative variance on owners' funds of £7 million for the year ended 31 December 2015. The positive variance is driven by favourable investment variances on the assets backing subordinated debt, impacted by a sharp fall in yields in 2016.

Provision for annuity sales practices

In the year ended 31 December 2016 a provision of £175 million was created as the FCA's review into the sale of non-advised annuities determined that some of the sales that Standard Life Assurance made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity.

The provision for historic annuity sales practices increased by £100 million in the year ended 31 December 2017, following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018.

Other items

Other items decreased by £2 million, or 17 per cent., to £10 million for the year ended 31 December 2017 from £12 million for the year ended 31 December 2016.

Other items decreased by £91 million, or 88 per cent., to £12 million for the year ended 31 December 2016 from £103 million for the year ended 31 December 2015. The 2015 result included restructuring expenses of £44 million in relation to the closure of SLIDAC's branches in Singapore and Dubai. The remainder of the reduction primarily reflects the 2015 result having included higher costs relating to the restructuring of the UK defined benefit scheme.

Finance costs attributable to owners

Finance costs attributable to owners have remained stable, reflecting the ongoing cost of the subordinated debt liabilities. The finance costs were £20 million for the years ended 31 December 2017, 31 December 2016 and 31 December 2015.

Profit attributable to non-controlling interests – other

Profit attributable to non-controlling interest – other, decreased by £21 million, or 47 per cent., to £24 million for the year ended 31 December 2017 from £45 million for the year ended 31 December 2016 and 31 December 2015. This item is driven by the performance of investment funds in which third parties have a holding.

Shareholder tax

Shareholder tax increased by £10 million, or 26 per cent., to a £48 million charge for the year ended 31 December 2017 compared to a charge of £38 million for the year ended 31 December 2016, in line with higher profits.

Shareholder tax decreased by £2 million, or 5 per cent., to a £38 million charge for the year ended 31 December 2016 compared to a charge of £40 million for the year ended 31 December 2015.

Regulatory capital requirements

The following table sets out a reconciliation from the Solvency II balance sheet to the Solvency II Own Funds for Standard Life Assurance.

	Year ended 31 December 2017	
	(£ million)	
Assets	Audited	161,079
Technical provisions	Unaudited	146,140
BEL	*Audited*	145,942
Risk Margin	*Unaudited*	1,433
TMTP	*Unaudited*	(1,235)
Other liabilities	Audited	8,783
Excess of assets over liabilities	**Unaudited**	**6,156**
Subordinated debt	Audited	1,023
RFF restriction	Unaudited	(921)
Standard Life Assurance Own Funds	**Unaudited**	**6,258**

On a Solvency II basis, using the internal model approved by the PRA for the insurance companies included within Standard Life Assurance, as at 31 December 2017 Standard Life Assurance had a SCR of £3,148 million (unaudited).

Contingent liabilities

At the request of the FCA, SLAL is conducting a past business review of non-advised annuity sales (with a purchase price above a minimum threshold) to customers eligible to receive an enhanced annuity from 1 July 2008 until 31 May 2016. The purpose of the review is to identify whether these customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and, where appropriate, provide redress to customers who have suffered loss as a result of not having received sufficient information. In relation to this review, the FCA is carrying out an investigation and it is possible that the FCA may impose a financial penalty on Standard Life Assurance. At this stage it is not possible to determine an estimate of the financial effect, if any, of this contingent liability.

In the normal course of business, Standard Life Assurance is exposed to certain legal issues, which involve litigation and arbitration. As at 31 December 2017, Standard Life Assurance has a number of contingent liabilities in this regard, none of which are considered by the Directors to be material.

Description of certain other indebtedness

The FRPRSG Bonds

On 12 July 2002, SL Finance plc, a wholly-owned subsidiary of SLAC, issued £500,000,000 6.75 per cent. Fixed Rate Perpetual Reset Subordinated Guaranteed Bonds (the "**FRPRSG Bonds**"). On 12 May 2006, Standard Life Aberdeen (formerly Standard Life plc) was substituted in place of SL Finance plc as issuer and SLAL agreed to provide a subordinated guarantee of the FRPRSG Bonds. The FRPRSG Bonds bear interest from their issue date at the rate of 6.75 per cent. per annum. From and including 12 July 2027 and every fifth anniversary thereafter, the rate of interest will be reset at the gross redemption yield on the benchmark gilt plus 2.85 per cent. The FRPRSG Bonds are perpetual securities with no fixed maturity date. The earliest date upon which Standard Life Aberdeen can redeem the FRPRSG Bonds is on 12 July 2027 and every fifth anniversary thereafter. The FRPRSG Bonds are subject to redemption prior to 12 July 2027 upon the occurrence of certain tax events or regulatory capital disqualification events that are set out in the terms and conditions of the FRPRSG Bonds.

The FRPRSG Bonds are subject to a mandatory interest deferral on failure of Standard Life Aberdeen or SLAL, as the case may be, to meet regulatory solvency both at the time of and immediately after any payment in respect of the FRPRSG Bonds. Standard Life Aberdeen may in its sole discretion defer interest payments on the FRPRSG Bonds and SLAL has the option to defer its obligation to make payments under the guarantee. If any payment of interest is not paid in full on any interest payment date, each of Standard Life Aberdeen and SLAL will be restricted from declaring or paying any dividends or distributions or making any other payments on any of its parity securities or any of its junior securities (other than a dividend which has been declared prior to the date on which the decision to defer any interest payment is made or where Standard Life Aberdeen or SLAL, as the case may be, is required to make a dividend, distribution or other payment in accordance with the terms of such parity securities or junior securities) or redeeming, purchasing or otherwise acquiring any of its parity securities or any of its junior securities, in each case unless or until an amount equal to the interest payments due and payable on all outstanding FRPRSG Bonds is paid in full or duly set aside or provided for in full. The FRPRSG Bonds are listed on the LSE.

The MACS

On 4 November 2004, SL MACS (No. 2) plc, a special purpose finance vehicle of the Standard Life Aberdeen group, issued £300,000,000 6.546 per cent. Mutual Assurance Capital Securities (the "**MACS**"). On 12 May 2006, Standard Life Aberdeen (formerly Standard Life plc) was substituted in place of SL MACS (No. 2) plc as issuer and SLAL agreed to provide a subordinated guarantee of the MACS. The MACS bear interest from their issue date at the rate of 6.546 per cent. per annum. From and including 6 January 2020 and every fifth anniversary thereafter, the rate of interest will be reset at the gross redemption yield on the benchmark gilt plus 2.7 per cent. The MACS are perpetual securities with no fixed maturity date. The earliest date upon which Standard Life Aberdeen can redeem the MACS is on 6 January 2020 and every anniversary thereafter. The MACS are subject to redemption prior to 6 January 2020 upon the occurrence of certain tax events or regulatory capital disqualification events as described in the terms and conditions of the MACS.

The MACS are subject to a mandatory interest deferral on failure of Standard Life Aberdeen or SLAL, as the case may be, to meet regulatory solvency both at the time of and immediately after any payment in respect of the MACS. Standard Life Aberdeen may in its sole discretion defer interest payments on the MACS and SLAL has the option to defer its obligation to make payments under the guarantee. Standard Life Aberdeen or SLAL, as the case may be, must satisfy their obligations to pay any deferred interest payment in respect of the MACS in accordance with an alternative coupon satisfaction mechanism, whereby payments are made with the proceeds from the issue of ordinary shares of Standard Life Aberdeen or SLAL, as applicable. If any payment of interest is not paid in full on any interest payment date, each of Standard Life Aberdeen and SLAL will be restricted from declaring or paying any dividends or distributions or making any other payments on any of its parity securities or any of its junior securities (other than a dividend which has been declared by Standard Life Aberdeen on its ordinary shares prior to the date on which the decision to defer any interest payment is made) or redeeming, purchasing or otherwise acquiring any of its parity securities or any of its junior securities, in each case unless or until an amount equal to the interest payments due and payable on all outstanding MACS is paid in full or duly set aside or provided for in full. The MACS are listed on the LSE.

The Collateralisation Arrangement related to Regulatory Capital Instruments

On and from Completion for so long as any of the FRPRSG Bonds or the MACS (together, the "**Regulatory Capital Instruments**") remain outstanding, Standard Life Aberdeen will credit an aggregate amount in cash in pounds sterling at least equal to the then outstanding aggregate principal amount of the Regulatory Capital Instruments to one or more escrow accounts (which is currently expected to be funded by Standard Life Aberdeen from the repayment of the subordinated loans advanced to SLAL in connection with the Regulatory Capital Instruments, subject to regulatory approval). Standard Life Aberdeen will take all action necessary such that the escrow accounts are open and fully funded on the date of Completion. Under the Share Purchase Agreement, Standard Life Aberdeen has agreed to use commercially reasonable endeavours to complete a tender offer in respect of each of the Regulatory Capital Instruments. In the event that any Regulatory Capital Instruments remain outstanding after such tender offers, Standard Life Aberdeen will be entitled to invest all or some of such cash collateral in certain eligible investments (including investment grade debt securities issued by any of the government of the United States of America, the United Kingdom or a member of the European Union, or a corporate issuer (excluding special purpose

vehicles) located in the United States of America, the United Kingdom or a member of the European Union). If, on the last business day of each month, the aggregate value of the cash collateral and the market value of the securities collateral is less than the then outstanding aggregate principal amount of the Regulatory Capital Instruments, Standard Life Aberdeen will be required to deposit an amount in cash or eligible securities at least equal to such shortfall.

Standard Life Aberdeen will only be entitled to withdraw amounts from the collateral accounts: (i) in order to satisfy its obligations under the Regulatory Capital Instruments; (ii) substitute any cash collateral or securities collateral; or (iii) if no shortfall will result from such withdrawal or if no Regulatory Capital Instruments remain outstanding and Standard Life Aberdeen has no further obligations thereunder. In the event that Standard Life Aberdeen fails to make any payments under the Regulatory Capital Instruments in full, or elects to exercise its right to defer such payment, the Company will be entitled to withdraw an amount in cash from the escrow account sufficient to satisfy such payment. In the event that a voluntary or involuntary bankruptcy, insolvency or other similar proceeding is brought against Standard Life Aberdeen or, while any MACS are outstanding, its ordinary shares are delisted from the LSE, the Company will be entitled to immediately transfer the cash and eligible securities in any collateral accounts into such accounts as the Company instructs.

Capitalisation and dividends

Capitalisation

As Standard Life Assurance is not a separate legal group and has not previously prepared standalone financial statements, it is not meaningful to disclose share capital or an analysis of reserves. The net assets of Standard Life Assurance are represented by the cumulative investment of the Standard Life Aberdeen group in Standard Life Assurance and disclosed as net parent investment.

Dividends

SLAL declared dividends to its parent of £312 million in respect of 2017, £180 million in respect of 2016 and £170 million in respect of 2015. Dividends are paid by reference to excess shareholder cash over planned expenditure and capital requirements. The increase in the 2017 dividend was primarily due to higher profits than in previous years.

Quantitative and qualitative disclosures about market risk

Quantitative and qualitative disclosures about market risk are included in Note 34 – Risk management of the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 contained in Part IX ("*Financial Information of Standard Life Assurance*").

Critical accounting policies

The critical accounting policies of Standard Life Assurance are set out in Note 1 of the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 contained in Part IX ("*Financial Information of Standard Life Assurance*").

PART XI—UNAUDITED PRO FORMA IFRS FINANCIAL INFORMATION OF THE ENLARGED GROUP

PART A: PRO FORMA IFRS FINANCIAL INFORMATION

The unaudited pro forma IFRS income statement and unaudited pro forma IFRS statement of net assets of the Enlarged Group (together, the "**Unaudited Pro Forma IFRS Financial Information**") set out below have been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The unaudited pro forma IFRS income statement has been prepared to illustrate the effect on the earnings of the Company as if the proposed Acquisition and the associated financing in the form of the Rights Issue, issuance of £600 million in hybrid capital instruments (including the RT1 Notes) and the Revolving Credit Agreement, had taken place on 1 January 2017. The unaudited pro forma IFRS statement of net assets has been prepared to illustrate the effect on the net assets of the Company as if the proposed Acquisition and the associated financing had taken place on 31 December 2017. The Unaudited Pro Forma IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company's or the Enlarged Group's actual financial position or results. The Unaudited Pro Forma IFRS Financial Information is stated on the basis of the IFRS accounting policies adopted by the Company in preparing its consolidated financial statements for the year ended 31 December 2017.

Unaudited pro forma statement of consolidated IFRS income for the Enlarged Group for the year ended 31 December 2017

		Pro forma adjustments for the Group					
	Phoenix Note 1	Standard Life Assurance Note 2	Adjustments to conform disclosures Note 3	Pre-Completion adjustments Note 4	Financing adjustments Note 5	Acquisition adjustments Note 6	Pro forma total
				(£ million)			
Gross premiums written	1,130	2,099	—	—	—	—	3,229
Less premiums ceded to reinsurers	(205)	(45)	—	—	—	—	(250)
Net premiums written	**925**	**2,054**	**—**	**—**	**—**	**—**	**2,979**
Fees	173	633	—	—	—	(51)	755
Net investment income	4,986	12,801	—	—	—	—	17,787
Total revenue, net of reinsurance payables	**6,084**	**15,488**	**—**	**—**	**—**	**(51)**	**21,521**
Other operating income	5	28	—	8	—	—	41
Net income	**6,089**	**15,516**	**—**	**8**	**—**	**(51)**	**21,562**
Policyholder claims	(3,897)	(4,397)	—	—	—	—	(8,294)
Less: reinsurance recoveries	443	480	—	—	—	—	923
Change in insurance contract liabilities	1,392	1,392	—	—	—	—	2,784
Change in reinsurers' share of insurance and contract liabilities	(423)	(567)	—	—	—	—	(990)
Transfer to unallocated surplus	(46)	(61)	—	—	—	—	(107)
Net policyholder claims and benefits incurred	**(2,531)**	**(3,153)**	**—**	**—**	—	—	**(5,684)**
Change in investment contract liabilities	(2,673)	(8,873)	—	—	—	—	(11,546)
Acquisition costs	(6)	—	—	—	—	—	(6)
Change in present value of future profits	5	—	—	—	—	—	5
Amortisation of acquired in-force business	(109)	—	—	—	—	(201)	(310)
Amortisation and impairment of other intangibles	(17)	—	(46)	—	—	—	(63)
Administrative expenses	(590)	(1,075)	46	2	—	37	(1,580)
Provision for annuity sales practices	—	(100)	—	—	—	—	(100)

		Pro forma adjustments for the Group					
	Phoenix Note 1	Standard Life Assurance Note 2	Adjustments to conform disclosures Note 3	Pre-Completion adjustments Note 4	Financing adjustments Note 5	Acquisition adjustments Note 6	Pro forma total
				(£ million)			
Expenses under arrangements with reinsurers	—	(202)	21	—	—	—	(181)
Net income attributable to unitholders	(43)	(1,537)	—	—	—	—	(1,580)
Total operating expenses	**(5,964)**	**(14,940)**	**21**	**2**	**—**	**(164)**	**(21,045)**
Profit before finance costs and tax	**125**	**576**	**21**	**10**	**—**	**(215)**	**517**
Finance costs	(132)	(25)	(21)	20	(15)	—	(173)
(Loss)/profit before tax	**(7)**	**551**	**—**	**30**	**(15)**	**(215)**	**344**
Tax charge attributable to policyholders' returns	(21)	(159)	—	—	—	—	(180)
(Loss)/profit before tax attributable to owners	**(28)**	**392**	**—**	**30**	**(15)**	**(215)**	**164**
Tax credit/(charge)	(20)	(207)	—	(11)	3	29	(206)
Add: tax attributable to policyholders' returns	21	159	—	—	—	—	180
Tax credit/(charge) attributable to owners	**1**	**(48)**	**—**	**(11)**	**3**	**29**	**(26)**
(Loss)/profit for the year attributable to owners	**(27)**	**344**	**—**	**19**	**(12)**	**(186)**	**138**
Attributable to:							
Owners of the parent	(27)	286	—	53	(35)	(186)	91
Non-controlling interests – Subordinated notes	—	34	—	(34)	23	—	23
Non-controlling interests – Other	—	24	—	—	—	—	24

Notes:

Note 1—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note 2—The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in Part IX (''*Financial Information of Standard Life Assurance*'') of this document.

Note 3—This column reflects adjustments to align the presentation of the income statement of Standard Life Assurance to that of Phoenix as follows:

(a) Phoenix discloses the amortisation and impairment of intangible assets separately in the income statement, whereas Standard Life Assurance discloses such amounts within ''Administrative expenses''. Accordingly a reclassification of £46 million has been made between ''Administrative expenses'' and ''Amortisation and impairment of other intangibles''.

(b) Standard Life Assurance recognises interest payable on deposits from reinsurers within ''Expenses under arrangements with reinsurers''. Phoenix recognises such amounts in ''Finance costs''. A reclassification of £21 million has been made in this regard.

Note 4—This column represents the following adjustments:

(a) As described in note 4(a) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, under the Share Purchase Agreement, Standard Life Assurance will repay the £300 million Mutual Assurance Capital Securities and £500 million subordinated guaranteed bonds (non-shareholders equity) prior to Completion. An adjustment of £20 million has been made to ''Finance costs'' to reflect that the Enlarged Group will no longer incur finance charges associated with the Mutual Assurance Capital Securities. A £4 million charge has been recognised in ''Tax attributable to owners'', representing the reversal of the tax credit received on those costs. An adjustment of £34 million (net of tax) has been made to ''Profit for the year attributable to Non-controlling interests – Subordinated notes'', reflecting that no charge to equity will be required in respect of interest costs on these instruments.

(b) As described in note 4(b) to the unaudited pro forma statement of IFRS net assets for the Enlarged Group, under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, an adjustment of £26 million to ''Administrative expenses'' has been made to reverse the IAS 19 pension accounting amounts credited to the income statement of Standard Life Assurance in respect of these non-transferring defined benefit pension schemes.

(c) An adjustment of £28 million has been made to "Administrative expenses" to reflect that certain costs historically recognised by Standard Life Assurance will no longer be incurred going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group under the terms of the Share Purchase Agreement. This more than offsets the adjustment detailed in note 4(b) above. A £5 million charge has been recognised in "Tax attributable to owners", representing the reversal of tax credit received on these costs.

(d) An adjustment of £8 million has been made to "Other operating income" to reflect income related to activities that in the future will be performed by Standard Life Assurance. These activities were historically performed by another legal entity, Standard Life Client Management Limited, which will be retained by the Standard Life Aberdeen group. A tax charge of £2 million has been recognised in "tax attributable to owners" in this regard.

Note 5—A charge of £15 million has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the Revolving Credit Agreement and £100 million of hybrid capital instruments entered into to finance part of the Acquisition (see Note 5(c) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group). An associated tax credit of £3 million has been recognised within "Tax attributable to owners". As detailed in Note 5(b) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, the RT1 Notes qualify to be treated as equity under the requirements of IAS 32. Therefore, an adjustment of £23 million has been recognised in "Profit for the year attributable to Non-controlling interests – Subordinated notes", representing the net of tax coupon payable on the RT1 Notes.

Note 6—This column represents the following adjustments:

(a) A charge of £40 million has been made to the line item "Administrative expenses" to reflect an estimate of the one-off transaction costs incurred (this has been offset by the £77 million credit detailed in (b) (iii) below). No tax relief is expected to be available on these expenses.

(b) As described in note 6(d) to the unaudited pro forma statement of IFRS net assets of the Enlarged Group, a fair valuation exercise of the assets and liabilities as at the date of acquisition will be performed on Completion. This will include a fair valuation of the future cashflows associated with Standard Life Assurance's in-force insurance contracts. The resultant asset will be recognised as Acquired Value of In-Force business ("**AVIF**") in the statement of consolidated financial position.

Note 7—In preparing the unaudited pro forma IFRS income statement, no account has been taken of the amortisation of other intangibles other than AVIF arising on acquisition or items subject to fair value acquisition accounting, on the basis that the fair valuation exercise will be performed on Completion.

Note 8—All of the adjustments described in notes 4, 5 and 6 to the unaudited pro forma income statement will have a continuing impact, with the exception of the adjustment in relation to the estimated one-off transaction costs.

Note 9—Phoenix presents a supplementary non-GAAP analysis of the result for the year attributable to owners that separately identifies an operating profit based on expected long-term investment returns. The operating profit measure is stated before amortisation and impairment of intangibles, other non-operating items, finance costs and tax. The following table illustrates the effect of the proposed Acquisition and associated financing on the non-GAAP reconciliation of Group operating profit to result attributable to shareholders for the Enlarged Group on a pro forma basis. This information is supplementary to the unaudited pro forma IFRS income statement. The details of adjustments are described in the subsequent footnotes.

	Phoenix Note (a)	Standard Life Assurance Note (b)	Adjustments to conform disclosures Note (c)	Other adjustments Note (d)	Pro forma total
		Pro forma adjustments for the Group			
			(£ million)		
Total operating profit	**368**	**366**	**—**	**36**	**770**
Investment return variances and economic assumption changes on long-term business	(6)	135	24	—	153
Variance on owners funds	(87)	(3)	—	—	(90)
Provision for annuity sales practices	—	(100)	100	—	—
Amortisation of acquired in-force business	(102)	—	—	(201)	(303)
Amortisation of other intangibles	(17)	—	—	—	(17)
Profit attributable to Non-controlling interest – Other	—	24	(24)	—	—
Other non-operating items	(80)	(10)	(100)	(40)	(230)
Profit before finance costs attributable to owners	**76**	**412**	**—**	**(205)**	**283**
Finance costs attributable to owners	(104)	(20)	—	5	(119)
(Loss)/profit before tax attributable to owners	**(28)**	**392**	**—**	**(200)**	**164**
Tax credit/(charge) attributable to owners	1	(48)	—	21	(26)
(Loss)/profit for the year attributable to owners	(27)	344	—	(179)	138

Notes:

Note (a)—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note (b)—The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in Part IX (''*Financial Information of Standard Life Assurance*'') of this document.

Note (c)—This column reflects adjustments to align the presentation of Standard Life Assurance's non-GAAP reconciliation of operating profit to result attributable to shareholders to that of Phoenix as follows:

(i) Standard Life Assurance has disclosed ''Provision for annuity sales practices'' separately on the face of the non-GAAP reconciliation of operating profit to result attributable to shareholders. Phoenix would include such amounts within ''Other non-operating items''. A reclassification of £100 million has been made in this regard.

(ii) Standard Life Assurance has disclosed ''Profit attributable to Non-controlling interest – other'' separately, whereas Phoenix would include such amounts within ''Investment return variances and economic assumption changes on long-term business''. A reclassification of £24 million has therefore been made.

Note (d)—This column represents the following adjustments as detailed in Notes 4, 5 and 6 above:

(i) An adjustment of £40 million has been made to the line item ''Other non-operating items'' to reflect an estimate of the one-off transaction costs incurred.

(ii) An adjustment of £201 million to ''Amortisation of acquired in-force business'' will be charged to the income statement reflecting the incremental amortisation charge on the AVIF arising on acquisition as described in Note 6(b) above.

(iii) An adjustment of £15 million to ''Finance costs attributable to owners'' reflecting the increase in interest costs payable under the Revolving Credit Agreement and the £100 million of hybrid capital instruments entered into to finance part of the Acquisition as described in note 5 above, is more than offset by the £20 million reduction in interest costs following the pre-Completion repayment of the £300 million Mutual Assurance Capital Securities, described in 4(a) above.

(iv) The pre-tax impact of all other adjustments has been recognised within operating profit (see 4(b), 4(c), 4(d) and 6(b)(iii)).

(v) An adjustment of £21 million to ''Tax credit / (charge) attributable to owners'' has been made to reflect the tax effect of the above items.

Note 10—In preparing the unaudited pro forma IFRS income statement, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

Summary unaudited pro forma statement of IFRS net assets of the Enlarged Group as at 31 December 2017

	Phoenix Note 1	Standard Life Assurance Note 2	Pro forma adjustments for the Group: Adjustments to conform disclosures Note 3	Pre-Completion adjustments Note 4	Financing adjustments Note 5	Acquisition adjustments Note 6	Pro forma total
				(£ million)			
Assets							
Pension Scheme asset	322	1,099	—	(1,099)	—	—	322
Intangible Assets:							
—Goodwill	57	—	—	—	—	—	57
—Acquired in-force business	1,298	—	—	—	—	2,014	3,312
—Deferred acquisition costs	—	606	—	—	—	(606)	—
—Other intangibles	202	85	—	—	—	—	287
	1,557	691	—	—	—	1,408	3,656
Deferred tax	—	11	—	—	—	—	11
Property, plant and equipment	26	7	—	—	—	—	33
Investment property	612	8,374	—	—	—	—	8,986
Financial Assets:							
—Loans and deposits	1,812	105	—	—	—	—	1,917
—Derivatives	2,760	3,026	—	—	—	—	5,786
—Equities	17,234	—	53,983	—	—	—	71,217
—Investment in associates	550	—	—	—	—	—	550
—Fixed and variable rate income securities	26,998	59,457	—	—	—	—	86,455
—Equity securities and investments in pooled investment funds	—	96,067	(96,067)	—	—	—	—
—Collective investment schemes	18,901	—	42,084	—	—	—	60,985
—Reinsurers' share of investment contract liabilities	6,085	—	—	—	—	—	6,085
	74,340	158,655	—	—	—	—	232,995
Insurance Assets:							
(Reinsurers' share of insurance contract liabilities	3,320	4,822	—	—	—	—	8,142
—Reinsurance receivables	32	—	2	—	—	—	34
—Insurance contract receivables	7	—	71	—	—	—	78
	3,359	4,822	73	—	—	—	8,254
Current tax	47	—	165	—	—	—	212
Prepayments and accrued income	355	—	145	—	—	—	500
Other receivables	580	—	513	—	—	—	1,093
Receivables and other financial assets	—	616	(616)	—	—	—	—
Other assets	—	280	(280)	—	—	—	—
Cash and cash equivalents	2,245	8,677	—	(1,132)	1,941	(1,971)	9,760
Assets classified as held for sale	—	156	—	—	—	—	156
Total assets	**83,443**	**183,388**	**—**	**(2,231)**	**1,941**	**(563)**	**265,978**
Liabilities							
Pension Scheme liabilities	633	51	—	(42)	—	—	642
Insurance Contract Liabilities:							
—Liabilities under insurance contracts	44,435	22,747	29,974	—	—	40	97,196
—Participating contract liabilities	—	30,577	(30,577)	—	—	—	—
—Unallocated surplus	925	—	603	—	—	—	1,528
	45,360	53,324	—	—	—	40	98,724
Financial Liabilities:							
—Investment contracts	26,733	104,383	—	—	—	78	131,194
—Borrowings	1,778	318	—	(318)	509	—	2,287
—Deposits received from reinsurers	368	4,633	—	—	—	—	5,001
—Derivatives	1,242	768	—	—	—	—	2,010
—Net asset value attributable to unit holders	840	13,371	—	—	—	—	14,211
—Obligations for repayment of collateral received	1,961	—	1,494	—	—	—	3,455
	32,922	123,473	1,494	(318)	509	78	158,158
Provisions	134	—	281	—	—	—	415

		Pro forma adjustments for the Group					
	Phoenix Note 1	**Standard Life Assurance Note 2**	**Adjustments to conform disclosures Note 3**	**Pre-Completion adjustments Note 4**	**Financing adjustments Note 5**	**Acquisition adjustments Note 6**	**Pro forma total**
				(£ million)			
Deferred tax	366	235	—	—	—	277	878
Reinsurance payables	23	—	5	—	—	—	28
Payables related to direct insurance contracts	522	—	317	—	—	—	839
Current tax	5	116	—	—	—	—	121
Accruals and deferred income	179	157	64	—	—	(157)	243
Other financial liabilities	—	2,538	(2,538)	—	—	—	—
Other liabilities	—	374	(374)	—	—	—	—
Other payables	144	—	751	—	—	40	935
Total liabilities	**80,288**	**180,268**	**—**	**(360)**	**509**	**278**	**260,983**
Net assets attributable to owners of the parent	3,155	2,321	—	(1,369)	937	(841)	4,203
Non-controlling interests – Subordinated notes	—	502	—	(502)	495	—	495
Non-controlling interests – Other	—	297	—	—	—	—	297

Notes:

Note 1—The financial information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note 2—The financial information for Standard Life Assurance has been extracted, without material adjustment, from the combined historical financial information as at and for the year ended 31 December 2017 included in Part IX (''*Financial Information of Standard Life Assurance*'') of this document.

Note 3—This column reflects adjustments to align the presentation of the Standard Lif Assurance statement of net assets with that of the Group:

(a) Phoenix recognises ''Equities'' and ''Collective investment schemes'' separately, whereas Standard Life Assurance discloses these amounts together. Accordingly reclassification adjustments of £53,983 million and £42,084 million have been made from ''Equity securities and interests in pooled investment funds'' to ''Equities'' and ''Collective investment schemes'' respectively.

(b) Standard Life Assurance discloses items in the captions ''Receivables and other financial assets'' and ''Other assets'' that Phoenix discloses in other lines. Reclassifications of £145 million to ''Prepayments and accrued income'', £2 million to ''Reinsurance receivables'', £71 million to ''Insurance contract receivables'', £165 million to ''Current tax'' and £513 million to ''Other receivables'' have therefore been made.

(c) Standard Life Assurance discloses ''Participating contract liabilities'' separately, whereas Phoenix discloses such items within ''Liabilities under insurance contracts'' and ''Unallocated surplus''. Reclassifications of £29,974 million and £603 million have therefore been made to ''Liabilities under insurance contracts'' and ''Unallocated surplus'' respectively.

(d) Standard Life Assurance discloses items in the captions ''Other financial liabilities'' and ''Other liabilities'' that Phoenix discloses in other lines. Reclassifications of £5 million to ''Reinsurance payables'', £317 million to ''Payables related to direct insurance contracts'', £64 million to ''Accruals and deferred income'', £1,494 million to ''Obligations for repayment of collateral'', £281 million to ''Provisions'' and £751 million to ''Other payables''.

Note 4—This column represents the following adjustments:

(a) Under the terms of the Share Purchase Agreement, Standard Life Assurance paid a dividend of £312 million prior to Completion. Standard Life Assurance will also repay the Mutual Assurance Capital Securities (recognised within ''Borrowings'') and the ''Non-controlling interest – Subordinated notes''. As such, the following adjustments have been made to the unaudited pro forma statement of net assets:

(i) an adjustments of £312 million has been made to ''Cash and cash equivalents'' to reflect the payment of the dividend; and

(ii) adjustments of £318 million to ''Borrowings'', and £502 million to ''Subordinated notes – non-shareholders equity'' to reflect the repayment of the Mutual Assurance Capital Securities and the Subordinated Guaranteed Bonds respectively with a corresponding adjustment to ''Cash and cash equivalents'' of £820 million.

(b) Under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, adjustments of £1,099 million and £42 million have been made to remove the IAS 19 pension surplus and deficit from the ''Pension scheme asset'' and ''Pension scheme liability'' respectively.

Note 5—The total consideration is £2,930 million and will be met through Standard Life Aberdeen's 19.99% holding in the Enlarged Group of £959 million and cash consideration of £1,971 million. The value of the 19.99% share capital in the Enlarged Group issued to Standard Life Aberdeen has been calculated based on a £950 million Rights Issue and a market capitalisation of the Group of £2,888 million on 22 February 2018 (the date of signing of the Share Purchase Agreement) after deducting an assumed final dividend of 25.1 pence per share. The cash consideration will be financed through the gross proceeds of the £950 million Rights Issue and the £600 million issuance of hybrid capital instruments (including the RT1 Notes), with the remaining balance of £421 million being financed by a part-drawdown on the Revolving Credit Agreement. This results in the following financing adjustments:

(a) The expected gross proceeds of the Rights Issue are £950 million. Fees associated with the Rights Issue are estimated at £13 million, giving net proceeds of £937 million, recognised within ''Cash and cash equivalents''.

(b) The gross proceeds from the issuance of the RT1 Notes are £500 million. Fees associated with the issuance of the RT1 Notes are £5 million. The RT1 Notes meet the criteria to be classified as equity instruments under IAS 32, and accordingly the net proceeds of £495 million have been recognised in ''Cash and cash equivalents'' and ''Non-controlling interests – Subordinated notes''.

(c) An adjustment of £509 million has been made to ''Borrowings'' and to ''Cash and Cash Equivalents'' to reflect the borrowings under the £100 million issuance of hybrid capital instruments (excluding the RT1 Notes) and the £421 million part-drawdown of the Revolving Credit Agreement, net of associated expenses of £12 million.

Note 6—This column represents the following adjustments:

(a) An adjustment of £40 million has been made to ''Other Payables'' to reflect provision for estimated one-off transaction costs. No tax relief is expected to be available on these expenses.

(b) Payment of the cash consideration of £1,971 million results in a decrease in ''Cash and Cash Equivalents'' of that amount (see note 5 above).

(c) Following the Acquisition, it is anticipated that certain investment management fees incurred by the Enlarged Group will attract VAT where previously they were exempt from charge. Adjustments of £40 million and £78 million have been made to increase ''Liabilities under insurance contracts'', and ''Investment contracts'' to reflect the capitalised impact of these increased expenses on the valuation of insurance contract liabilities. These net asset impact of these adjustments is partly offset by a credit of £20 million recognised in ''Deferred Tax''.

(d) Under IFRS 3 Business Combinations, it is a requirement to fair value the consideration paid and all assets and liabilities acquired as at the acquisition date. This fair valuation exercise will not be performed until Completion, and therefore no adjustments have been made to the fair values of the individual assets and liabilities of Standard Life Assurance when preparing the unaudited pro forma statement of net assets.

A significant adjustment arising from the fair value exercise is expected to be the valuation of the future cashflows associated with the in-force insurance contracts of Standard Life Assurance and the subsequent recognition of an acquired value of in-force business asset.

Whilst the fair value of the of the projected cashflows will not be known until completion of the acquisition accounting exercise, an indication of the acquired value of in-force to be recognised on Completion is provided below.

	(£ million)
Total consideration	**2,930**
Less:	
Value of the IFRS net assets of Standard Life Assurance attributable to owners of the parent	854
Value of deferred acquisition costs, net of related deferred tax, included within the net assets of Standard Life Assurance	553
Add:	
Value of deferred income liabilities, net of related deferred tax, included within the net assets of Standard Life Assurance	149
Indicative AVIF, net of deferred tax	**1,672**
Gross up for deferred tax at 17 per cent.	342
Indicative AVIF	**2,014**

The value of the IFRS net assets of Standard Life Assurance of £854 million has been stated after reflecting the pre-Completion adjustments described in note 4 and the adjustments detailed in Note 6(c).

As such, the following adjustments have been made in the unaudited pro forma statement of net assets:

(i) an adjustment of £2,014 million has been recognised to ''Acquired in-force business'' as calculated above;

(ii) adjustments of £606 million and £157 million have been made to ''Deferred acquisition costs'' and ''Accruals and deferred income'' to reflect the removal of the Standard Life Assurance Deferred acquisition costs asset and Deferred income liability, as these amounts are replaced by the value of the AVIF upon acquisition; and

(iii) an adjustment of £297 million has been made to the caption ''Deferred tax'' to reflect the difference between the deferred tax liability of £342 million arising on the recognised AVIF balance (calculated using a tax rate of 17 per cent., reflecting future reductions in corporate tax rates where enacted in legislation) and the removal of a £53 million deferred tax liability recognised in respect of the Deferred acquisition costs and an £8 million deferred tax asset recognised in respect of Deferred income included in the net assets of Standard Life Assurance. As described in note 6(d)(ii) above.

(e) No other adjustments have been made to the fair values of assets and liabilities acquired, including the recognition of goodwill or other intangible assets, as the necessary remeasurements will not be known until Completion.

Note 7—In preparing the unaudited pro forma IFRS net asset statement, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

PART B: ACCOUNTANTS' REPORT

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30 May 2018

Dear Sirs,

We report on the unaudited pro forma IFRS financial information (the "**Pro Forma IFRS Financial Information**") set out in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") of the combined prospectus and class 1 circular dated 30 May 2018, which has been prepared on the basis described in the notes to the unaudited Pro Forma IFRS Financial Information, for illustrative purposes only, to provide information about how the rights issue by Phoenix Group Holdings (the "**Company**") and class 1 acquisition might have affected the financial information presented on the basis of the IFRS accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2017. This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) No 809/2004 and Listing Rule 13.4.1R (6), consenting to its inclusion in the combined prospectus and class 1 circular.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma IFRS Financial Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma IFRS Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma IFRS Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma IFRS Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma IFRS Financial Information has been properly compiled on the basis stated and that such basis is consistent with the IFRS accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma IFRS Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the IFRS accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the combined prospectus and class 1 circular 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 combined prospectus and class 1 circular in compliance with item 1.2 of Annex I of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

PART XII—UNAUDITED PRO FORMA SOLVENCY INFORMATION OF THE ENLARGED GROUP

PART A: PRO FORMA SOLVENCY FINANCIAL INFORMATION

The unaudited pro forma statement of Group Solvency II Surplus of the Enlarged Group (the "**Unaudited Pro Forma Solvency Information**") set out below has been prepared for illustrative purposes only in accordance with Annex II of the PD Regulation and on the basis of the notes set out below. The Unaudited Pro Forma Solvency Information has been prepared to illustrate the effect on the Group solvency position at the level of Phoenix as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments (including the RT1 Notes) had taken place on 31 December 2017. The Unaudited Pro Forma Solvency Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Company or the Enlarged Group's actual financial position, results or solvency position. The Unaudited Pro Forma Solvency Information is stated on the Company's basis of Solvency II reporting (the "**Solvency Accounting Policies**") expected to be applied by the Company for the year ending 31 December 2018.

Standard Life Assurance has regulatory approval to calculate its solvency capital requirements in accordance with its own internal model (with the exception of SLIDAC which uses standard formula). The preparation of the unaudited pro forma solvency information for the Enlarged Group has been completed using the Deduction and Aggregation method for the Standard Life Assurance entities. Under this method, Standard Life Assurance will continue to calculate its solvency capital requirements in accordance with its existing Internal Model (or standard formula for SLIDAC). The use of the Deduction and Aggregation approach is subject to approval at the discretion of the PRA. The Group intends to make the relevant application to use the Deduction and Aggregation approach ahead of Completion.

The Group expects to work with the PRA to harmonise to a single group internal model in the future and to incorporate Standard Life Assurance within that model. Any such approval to use a single group internal model will also be within the discretion of the PRA.

Unaudited pro forma statement of Enlarged Group Solvency II Surplus as at 31 December 2017

		Pro forma adjustments				
	Phoenix Note 1	**Standard Life Assurance Note 2**	**Pre-Completion adjustments Note 3**	**Financing adjustments Note 4**	**Acquisition adjustments Note 5**	**Pro forma Enlarged Group total**
Own Funds *(£ billion)*	6.6	6.3	(2.1)	1.6	(2.2)	10.2
Solvency Capital Requirement *(£ billion)*	(4.8)	(3.2)	0.3	—	—	(7.7)
Solvency II Surplus *(£ billion)*	1.8	3.1	(1.8)	1.6	(2.2)	2.5
Regulatory Coverage Ratio	138%	—	—	—	—	132%
Shareholder Capital Coverage Ratio *(Note 6)*	164%	—	—	—	—	147%

Notes:

Note 1—The solvency information for Phoenix has been extracted, without material adjustment, from Phoenix's Annual Report and Accounts for the year ended 31 December 2017.

Note 2—The solvency information for Standard Life Assurance has been extracted without material adjustment, from the combined historical financial information of Standard Life Assurance as at and for the year ended 31 December 2017 included Part IX ("*Financial Information of Standard Life Assurance*") of this document.

Note 3—This column represents the following adjustments:

(a) Under the terms of the Share Purchase Agreement, Standard Life Assurance has paid a dividend prior to Completion which reduced Own Funds by £0.3 billion. Standard Life Assurance will also repay subordinated debt instruments that qualify to be recognised as Own Funds which will reduce the Own Funds by £0.8 billion.

(b) Under the terms of the Share Purchase Agreement, defined benefit pension schemes where Standard Life Assurance was the sponsoring employer of the Scheme are not being transferred as part of the Acquisition. Accordingly, the impact of removing the defined benefit schemes is to reduce Own Funds by £1.1 billion and SCR by £0.3 billion.

(c) Certain costs historically recognised by Standard Life Assurance will no longer be incurred going forward, as they relate to activities that will be retained by the Standard Life Aberdeen Group under the terms of the Share Purchase Agreement. Removal of the capitalised value of these costs increases Own Funds by £0.1 billion.

Note 4—The financing adjustments in connection with the Acquisition include the following items which impact Own Funds. These adjustments have no impact on SCR:

(a) Equity raised of £1.0 billion under the Rights Issue will increase the Own Funds.

(b) The receipt of debt financing in the form of £600 million of hybrid capital instruments (including the £500 million gross proceeds from the issuance of the RT1 Notes) will increase the Own Funds by £0.6 billion as the hybrid capital instruments qualify as Own Funds under Solvency II.

(c) The receipt of debt financing in the form of the Revolving Credit Agreement increases both cash and borrowings by £0.4 billion, respectively. The impact on Own Funds is therefore net neutral.

Note 5—The acquisition adjustments comprise the following:

(a) The payment of the cash consideration reduces Own Funds by £2.0 billion. The cash consideration is calculated as the total consideration of £2.9 billion less the value of the 19.99% share capital in the Group issued to Standard Life Aberdeen of £0.9 billion, calculated based on a £1.0 billion Rights Issue and a market capitalisation of the Group of £2,888 million on 22 February 2018 (the date of signing of the Share Purchase Agreement) after deducting an assumed Final dividend of 25.1 pence per share.

(b) Expenses incurred in association with the proposed Acquisition, the associated financing including the issuance of £600 million of hybrid capital instruments and the Rights Issue will be borne by Phoenix and therefore decrease the Group Solvency II Surplus by £0.1 billion.

(c) Following Completion, it is anticipated that certain investment management fees incurred by the Enlarged Group will attract VAT where previously they were exempt from charge. The capitalised impact of these charges decreases Own Funds by £0.1 billion.

Note 6—The Shareholder Capital Coverage Ratio represents the ratio of Own Funds to SCR, after elimination of amounts related to unsupported with profit funds and the PGL Pension Scheme. Unsupported with profit funds and pension schemes are those whose Own Funds exceed their SCR.

As detailed in the table below, the Group Own Funds of £6.6 billion and Group SCR of £4.8 billion include amounts in respect of unsupported with profit funds and the PGL Pension Scheme of £2.0 billion. Excluding these amounts gives a Group Shareholder Capital position of £4.6 billion of Own Funds, £2.8 billion of SCR and a ratio of 164 per cent. The Group Solvency II Surplus is unchanged at £1.8 billion.

The Group	**Base solvency**	**Unsupported with profit funds and PGL Pension Scheme**	**Shareholder Capital**
Own Funds *(£ billion)*	6.6	(2)	4.6
SCR *(£ billion)*	(4.8)	2	(2.8)
Solvency II Surplus *(£ billion)*	1.8	0	1.8
Shareholder Capital Coverage Ratio	—	—	164%

The Standard Life Assurance Own Funds of £6.3 billion include amounts in respect of unsupported with profit funds of £0.4 billion and pension schemes in surplus of £1.1 billion. The Standard Life Assurance SCR of £3.2 billion includes amounts in respect of unsupported with profit funds of £0.4 billion and pension schemes in surplus of £0.3 billion. Excluding these amounts gives a Shareholder Capital position for Standard Life Assurance of £4.8 billion of Own Funds, £2.5 billion of SCR and a ratio of 192 per cent. Standard Life Assurance's Solvency II Surplus on the Shareholder Capital basis decreases to £2.3 billion. This reflects that at on a solo regulatory basis, credit is taken for the surplus on the pension schemes included within the regulatory basis Own Funds of Standard Life Assurance. On a Shareholder Capital basis, no credit is taken for surpluses in such pension schemes.

Standard Life Assurance	**Base solvency**	**Unsupported with profit funds and Pension Schemes**	**Shareholder Capital**
Own Funds *(£ billion)*	6.3	(1.5)	4.8
SCR *(£ billion)*	(3.2)	0.7	(2.5)
Solvency II Surplus *(£ billion)*	3.1	(0.8)	2.3
Shareholder Capital Coverage Ratio	—	—	192%

The pre-Completion, financing and acquisition adjustments described in notes 3, 4 and 5 all impact the Shareholder Capital position with the exception of the adjustment detailed in note 3(b) (as the pension schemes are removed when deriving the Shareholder Capital position). The Enlarged Group Shareholder Capital position therefore comprises £7.8 billion of Own Funds, £5.3 billion of SCR and a Shareholder Capital Coverage Ratio of 147 per cent. The Shareholder Capital position for the Enlarged Group excludes Own Funds and SCR amounts of £2.4 billion in respect of unsupported with profit funds and the PGL Pension Scheme. The Enlarged Group's Solvency II surplus of £2.5 billion is unchanged.

Enlarged Group	**Base Solvency II position**	**Unsupported with profit funds and PGL Pension Scheme**	**Shareholder Capital**
Own Funds *(£ billion)*	10.2	(2.4)	7.8
SCR *(£ billion)*	(7.7)	2.4	(5.3)
Solvency II Surplus *(£ billion)*	2.5	0	2.5
Shareholder Capital Coverage Ratio	—	—	147%

Note 7—In preparing the unaudited pro forma statement of Group Solvency II Surplus, no account has been taken of the trading activity or other transactions of the Group or Standard Life Assurance since 31 December 2017.

PART B: ACCOUNTANTS' REPORT

The Directors
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30 May 2018

Dear Sirs,

We report on the unaudited pro forma solvency information (the "**Pro Forma Solvency Information**") set out in Part XI ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of the combined prospectus and class 1 circular dated 30 May 2018, which has been prepared on the basis described in notes 1 to 6, for illustrative purposes only, to provide information on the group solvency position at the level of Phoenix Group Holdings (the "**Company**") as if the proposed Acquisition, the Rights Issue and the issuance of £600 million in hybrid capital instruments had taken place on 31 December 2017. The Pro Forma Solvency Information is presented on the Solvency II reporting basis expected to be applied by Phoenix Group Holdings for the period ending 31 December 2018 (the "**Solvency Accounting Policies**"). This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) No 809/2004 and Listing Rule 13.4.1R (6), consenting to its inclusion in the combined prospectus and class 1 circular.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Solvency Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma Solvency Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Solvency Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted solvency information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Solvency Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Solvency Information has been properly compiled on the basis stated and that such basis is consistent with the Solvency Accounting Policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma Solvency Information has been properly compiled on the basis stated; and
- such basis is consistent with the Solvency Accounting Policies of the Company

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the combined prospectus and class 1 circular 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 combined prospectus and class 1 circular in compliance with item 1.2 of Annex I of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

PART XIII—TAXATION

1. UK TAXATION

The following comments broadly outline the current taxation position of Shareholders who: (i) are UK tax resident and, in the case of an individual, domiciled in (and only in) the UK for tax purposes (except insofar as express reference is made to the treatment of non-UK tax residents); (ii) are the absolute beneficial owners of Shares, New Shares or New Depositary Interests (in particular Shareholders holding their Shares, New Shares or New Depositary Interests in a depositary receipt system or clearance service should note that they may not be the absolute beneficial owners thereof); (iii) are holding Shares, New Shares or New Depositary Interests as investments (other than under an Individual Savings Account or a Self Investment Personal Pension); and (iv) have not (and are not deemed to have) acquired their Shares, New Shares, New Depositary Interests, Nil Paid Rights or Fully Paid Rights by virtue of an office or employment (including any former or prospective office or employment) and who are not otherwise connected with the Company.

The following comments do not constitute legal or tax advice and are intended as a general guide only to certain UK tax considerations and do not purport to be a comprehensive analysis of all UK tax considerations of acquiring, holding or disposing of Shares, New Shares or New Depositary Interests. These statements are based on current UK tax law as applied in England and Wales and HMRC published practice (which may not be binding) as at the date of this document and such provisions may be repealed, revoked or modified, possibly with retrospective effect. These statements are not intended to be exhaustive and do not purport to be a complete analysis of all UK tax consequences of holding or disposing of Shares, New Shares or Depositary Interests.

These statements may not apply to certain classes of investors who may be subject to special rules (such as brokers, traders or dealers in securities, insurance companies, charities, collective investment schemes or pension providers). Each Shareholder's specific circumstances will impact on their taxation position. All Shareholders are recommended to obtain their own taxation advice. In particular, all Shareholders, including Shareholders who are tax resident in the UK, are advised to consider the potential impact of any relevant double tax agreements on their shareholding.

1.1 Taxation of chargeable gains

1.1.1 *New Share or New Depositary Interests issued and allotted pursuant to the Rights Issue*

For the purposes of UK taxation of chargeable gains, the issue and allotment of the New Shares by the Company pursuant to the Rights Issue should constitute a reorganisation of the Company's share capital. On this basis, Shareholders should not be treated as making a disposal of all or any part of their holding of Shares by reason of taking up their rights to New Shares or New Depositary Interests. Instead, if Shareholders take up all or any part of their rights to the New Shares or New Depositary Interests, their existing holding of Shares and their New Shares or their New Depositary Interests should be treated as the same asset, acquired at the time they acquired their Existing Shares. The subscription amount paid by a Shareholder in consideration for the New Shares or New Depositary Interests should be added to the base cost of their Existing Shares when computing the gain or loss on any subsequent disposal but, for the purposes of calculating the indexation allowance (in the case of corporate Shareholders) on a subsequent disposal of Shares, the amount paid will generally be taken into account only from the time that the payment was made or the date upon which payment was liable to be made, not from the time the original holding was acquired. In the case of Shareholders who are individuals, the indexation allowance is not available.

1.1.2 *Disposal of New Shares or New Depositary Interests*

If Shareholders within the charge to UK taxation of chargeable gains sell or otherwise dispose of all or some of the New Shares or New Depositary Interests allotted to them (or their rights to acquire New Shares or New Depositary Interests), or if they allow or are deemed to have allowed all or some of their rights to acquire New Shares or New Depositary Interests to lapse and receive a cash payment in respect of them, they may, depending on their circumstances, incur a liability to UK taxation on any chargeable gain realised.

However, if the proceeds resulting from a lapse, sale or disposal of the New Shares or New Depositary Interests or the rights to acquire them are: (i) "small" as compared with the market value (on the date of lapse, sale or disposal) of the Shares in respect of which the rights arose; and (ii) not in excess of the base cost of the Shares in respect of which the rights arose, a Shareholder should not generally be treated as making a disposal for the purposes of UK

taxation of chargeable gains. The proceeds will instead be deducted from the acquisition cost of the relevant Shares for the purposes of computing any chargeable gain or allowable loss on a subsequent disposal. The current practice of HMRC is to apply this treatment where either: (i) the proceeds of the disposal, sale or lapse of rights do not exceed 5 per cent. of the market value (at the date of the disposal, sale or lapse) of the Shares in respect of which the rights arose; or (ii) the amount of the proceeds is £3,000 or less, regardless of whether the 5 per cent. test is satisfied.

In the case where the proceeds are ''small'' but exceed the total base cost of the Existing Shares owned, the taxpayer may, in computing any chargeable gain, elect to deduct that base cost of the Existing Shares from the proceeds, reducing to nil the amount of such costs available for subsequent disposals.

Where the proceeds are not ''small'' or the proceeds exceed the total base cost of the Existing Shares owned, a part disposal is deemed to have occurred. Subject as set out below, the base cost used in the calculation of any resulting gain or loss as a result of the part disposal is apportioned by reference to the proceeds receivable and the market value of the Shares, New Shares or New Depositary Interests retained. Accordingly, Shareholders may, depending on their circumstances (including the availability of exemptions, reliefs and/or allowable losses), incur a liability to taxation on chargeable gains or realise an allowable loss.

Any proceeds on sale paid to a Shareholder in respect of fractional entitlements to New Shares or New Depositary Interests will be treated as a disposal of a part of such Shareholder's Shares and such Shareholder may, depending on the particular circumstances, incur a liability to UK capital gains tax (''**CGT**''). However, as mentioned above, if the proceeds are ''small'' the Shareholder should not generally be treated as making a disposal for the purposes of CGT.

Further information in relation to the liability to UK taxation on any chargeable gain for certain types of Shareholders is set out below.

(i) *Individual Shareholders*

An individual Shareholder has a CGT annual exemption (£11,700 for the 2018/2019 tax year) and so will only be subject to CGT to the extent his or her total chargeable gains in the year (including any gains on the disposal or deemed disposal of his or her New Shares or New Depositary Interests or his or her rights to acquire them) exceed this annual exemption.

The rate of CGT will depend on the individual Shareholder's total taxable income and gains in the relevant tax year. An individual Shareholder whose total taxable income and gains in a given tax year (including gains on a disposal or deemed disposal of New Shares or New Depositary Interests or his or her rights to acquire them) are less than or equal to the individual's basic rate band will generally be subject to CGT at 10 per cent. of the gain on the disposal or deemed disposal of the New Shares or New Depositary Interests or his or her rights to acquire them. However, if any capital gains exceed the unused basic rate band, the applicable rate will be 20 per cent.

(ii) *Corporate Shareholders*

For Shareholders within the charge to UK corporation tax, a disposal or deemed disposal of New Shares or New Depositary Interests may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax, subject to any available exemptions, reliefs or allowances. The main rate of UK corporation tax is currently 19 per cent., reducing to 17 per cent. from 1 April 2020. For such Shareholders, indexation allowance may be available to reduce any chargeable gain arising (but not to create or increase any allowable loss) on the disposal of their New Shares or New Depositary Interests. The UK government announced in the Autumn Budget of November 2017 its intention to freeze indexation allowance from 1 January 2018 and, accordingly, any indexation allowance that is applied in order to determine the amount of chargeable gain will be calculated up to December 2017.

(iii) *Non-UK tax resident Shareholders*

A Shareholder who is not resident for tax purposes in the UK will not generally be subject to CGT or UK corporation tax on a disposal of New Shares or New Depositary Interests (or rights to acquire New Shares or New Depositary Interests), unless the Shareholder is carrying on a trade, profession or vocation in the UK through a branch or agency (or, in

the case of a corporate Shareholder, they are carrying on a trade through a permanent establishment) in connection with which the New Shares or New Depositary Interests (or rights to acquire New Shares or New Depositary Interests) are used, held or acquired. Such Shareholders may be subject to foreign taxation on any gain under local law and should seek their own local law tax advice.

An individual Shareholder who is not UK tax resident on a temporary basis (which, depending upon the individual's circumstances, can be up to six UK tax years) and who disposes of all or part of his or her New Shares or New Depositary Interests (or rights to acquire New Shares or New Depositary Interests) or who received a cash payment in respect of the lapse of such rights during that period may be liable to CGT on his or her return to the UK subject to any available exemptions or reliefs.

1.2 **Taxation of dividends**

(i) *Individual Shareholders*

The Company is not required to withhold tax at source when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a Shareholder.

An individual Shareholder who is resident for tax purposes in the UK and who receives a dividend from the Company on the New Shares or New Depositary Interests will pay no tax on the first £2,000 of dividend income received in each tax year starting on or after 6 April 2018 (the ''dividend allowance''). For these purposes ''dividend income'' includes the gross amount of any UK and non-UK source dividends and certain other distributions in respect of shares (including dividends on the New Shares including where represented by Depositary Interests).

The rates of income tax for the 2018/2019 tax year on dividends received above the dividend allowance are: (i) 7.5 per cent. for dividends taxed in the basic rate band; (ii) 32.5 per cent. for dividends taxed in the higher rate band; and (iii) 38.1 per cent. for dividends taxed in the additional rate band. An individual Shareholder's dividend income that is within the dividend allowance counts towards an individual's basic or higher rate limits and will therefore affect the level of savings allowance to which they are entitled, and the rate of tax that is due on any dividend income in excess of this allowance. In calculating into which tax band any dividend income over the £2,000 allowance falls, savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend income is treated as the top slice.

(ii) *Corporate Shareholders*

Corporate Shareholders who are within the charge to UK corporation tax which are ''small companies'' (for the purposes of UK taxation of dividends) will not generally be subject to UK corporation tax on dividends on the New Shares (including where represented by Depositary Interests), provided certain conditions are met.

Other corporate Shareholders who are within the charge to UK corporation tax will prima facie be subject to UK corporation tax on any dividends on the New Shares (including where represented by Depositary Interests) unless certain conditions for exemption are satisfied. Although each Shareholder's position will depend on its own individual circumstances, and subject to anti-avoidance rules, the exemption is of wide application and such Shareholders will therefore generally not be subject to UK corporation tax on the dividend.

If the conditions for exemption are not met (or cease to be satisfied), or a Shareholder elects for an otherwise exempt dividend to be taxable, the Shareholder will be subject to UK corporation tax on dividends received from the Company at the rate of corporation tax applicable to that Shareholder (currently 19 per cent.).

1.3 **UK stamp duty and UK stamp duty reserve tax**

The following comments are intended as a general guide to the current UK stamp duty and SDRT position, and apply regardless of whether or not a Shareholder is resident in UK. It should be noted that certain categories of person, including market makers, brokers, dealers, and other specified market intermediaries, are entitled to exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.

No stamp duty or SDRT will be payable on the issue of Provisional Allotment Letters or split letters of allotment or the crediting of Nil Paid Rights or Fully Paid Rights to stock accounts in CREST, or the issue of the New Shares or New Depositary Interests.

SDRT will be payable on the transfer of New Depositary Interests if the transfer is settled through CREST, at the rate of 0.5 per cent. of the consideration given for the transfer. The Company also expects that SDRT at a rate of 0.5 per cent. will be collected by CREST on a transfer of any Nil Paid Rights or Fully Paid Rights settled through CREST.

Stamp duty or SDRT may be charged at the higher rate of 1.5 per cent. on transfer of New Shares into a clearance system or depositary system.

2. CERTAIN CAYMAN ISLANDS TAX CONSIDERATIONS

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

The Company is registered as an "exempted company" pursuant to the Companies Law. The Company has received an undertaking from the Governor-in-Cabinet of the Cayman Islands that in accordance with section 6 of the Tax Concession Law (as amended) of the Cayman Islands that, for a period of 30 years from 11 May 2010, no law enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and in addition that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable: (i) on or in respect of the Shares, New Shares, Depositary Interests, New Depositary Interests, Nil Paid Rights, Fully Paid Rights, PALs, debentures or other obligations of the Company or (ii) by way of the withholding in whole or in part of any payment of dividend or other distribution of income or capital by the Company to its members of any payment of principal or interest or other sums due under a debenture or other obligation of the Company. Accordingly, it is not envisaged that the Company 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.

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the Cayman islands.

PART XIV—TERMS OF THE ACQUISITION

1. PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

1.1 Parties

On 23 February 2018, Phoenix (as buyer) and Standard Life Aberdeen (as seller) entered into a share purchase agreement, which was amended and restated on 28 May 2018 (the "**Share Purchase Agreement**"). Under its terms, and subject to certain conditions, the entire share capital of SLAL shall transfer to the Company.

1.2 Timing and conditions

While the Share Purchase Agreement was signed on 23 February 2018, the entire share capital of SLAL shall transfer to the Company upon Completion. Completion cannot occur until each of the following conditions is satisfied (or waived by the agreement of each of the Company and Standard Life Aberdeen under the terms of the Share Purchase Agreement):

(a) approval of the Acquisition (as a class 1 transaction under the Listing Rules) by a majority of votes cast by Shareholders at the General Meeting;

(b) approval of the Acquisition (as a class 1 transaction under the Listing Rules) by a majority of votes cast by shareholders of Standard Life Aberdeen at a general meeting of Standard Life Aberdeen;

(c) actual or deemed consent from the PRA for the acquisition of control of SLAL by the Company (and any other relevant entities) and the issue of the Acquisition Shares to Standard Life Aberdeen;

(d) confirmation by the Central Bank of Ireland that it does not object to the indirect acquisition of a qualifying holding in SLIDAC by each of the Company and Standard Life Aberdeen or the relevant assessment period having elapsed;

(e) actual or deemed antitrust clearances from the Competition and Markets Authority (United Kingdom) and the Competition and Consumer Protection Commission (Ireland);

(f) completion of a restructuring of the SLAL group, including the transfer of Vebnet (Holdings) Limited to SLAL and the transfer of 1825 Financial Planning Limited, Standard Life Savings Limited and Standard Life Client Management Limited to the Standard Life Aberdeen retained group, and the receipt of all regulatory approvals required in respect of such restructuring to the satisfaction of Standard Life Aberdeen (acting reasonably) or indications that such regulatory approvals are not required to the satisfaction of each of Phoenix and Standard Life Aberdeen (acting reasonably); and

(g) receipt of the proceeds of the Rights Issue and Admission.

If each of the conditions has not been satisfied (or waived) by 5.00 p.m. on the Long Stop Date then the Share Purchase Agreement will terminate and the Acquisition will not proceed. The Acquisition was cleared by the Competition and Consumer Protection Commission on 29 May 2018.

Completion shall not take place before 31 August 2018. If the date on which the last condition shall have been fulfilled or waived is less than five Business Days before the last Business Day of that calendar month or any subsequent month, then Completion shall take place on the last Business Day of the next following calendar month (or otherwise as Phoenix and Standard Life Aberdeen may agree in writing).

1.3 Consideration

The total consideration for the Acquisition comprises: (i) the sum of (a) £1,971,117,775 and (b) if Phoenix pays to the Shareholders any dividend (excluding the final dividend for 2017) in circumstances where the record date for such dividend falls before Completion, an amount equal to the dividend per share multiplied by the number of Acquisition Shares, such sum to be paid by the Company to Standard Life Aberdeen in cash at Completion; (ii) the issue of the Acquisition Shares by the Company to Standard Life Aberdeen at Completion; and (iii) any payment made by the Company to Standard Life Aberdeen pursuant to the Purchase Price Adjustment on or following Completion (see below).

The consideration may be adjusted via a "locked box" mechanism. This means that if certain types of payments which are outside the ordinary course of business have been, or are, made to Standard Life Aberdeen's group from SLAL or its subsidiaries from (but excluding) 31 December 2017 to (and

including) Completion, then this will result in a reduction in the cash component of the total consideration paid at Completion. Where these payments have not been determined or agreed at Completion then further price adjustments may occur after Completion.

The consideration has been determined by reference to the anticipated cost base for 2018 for the SLAL business. The consideration may be further adjusted if the cost base for 2018 for the SLAL business transferred to the Company following the restructuring of the SLAL group referred to above and of the assets referred to below (as such cost base is agreed or determined following Completion) exceeds the anticipated cost base by more than 1.5 percent.

1.4 Termination

The Share Purchase Agreement will terminate automatically if the conditions are not satisfied by the Long Stop Date. In addition, Standard Life Aberdeen may elect to terminate the Share Purchase Agreement if: (i) the General Meeting to approve the Acquisition is not convened and held by 30 November 2018; (ii) the Shareholders do not approve the Acquisition at the General Meeting or (iii) if the Company is in breach of a fundamental warranty. The Company may elect to terminate the Share Purchase Agreement if: (i) the general meeting of Standard Life Aberdeen to approve the Acquisition is not convened and held by 30 November 2018; (ii) the shareholders of Standard Life Aberdeen do not approve the Acquisition at the general meeting of Standard Life Aberdeen; or (iii) if Standard Life Aberdeen is in breach of a fundamental warranty.

Standard Life Aberdeen shall pay to the Company a "break fee", and the Company shall pay to Standard Life Aberdeen a "reverse break fee", in the event that the Share Purchase Agreement terminates prior to Completion in circumstances where: (i) the general meeting of Standard Life Aberdeen (in the case of the break fee) or the General Meeting (in the case of the reverse break fee) to approve the Acquisition is not convened and held by 30 November 2018; (ii) the relevant circular (in the case of the break fee) or this document (in the case of the reverse break fee) did not contain a recommendation from the directors of Standard Life Aberdeen (in the case of the break fee) or the Directors (in the case of the reverse break fee) that the relevant shareholders vote in favour of the Acquisition and any other relevant resolutions; or (iii) the directors of Standard Life Aberdeen (in the case of the break fee) or the Directors (in the case of the reverse break fee) qualified, changed or withdrew such recommendation prior to the general meeting of Standard Life Aberdeen or the General Meeting (as relevant). The break fee and the reverse break fee could be as high as £30 million.

1.5 Representations and warranties

The Company and Standard Life Aberdeen have given each other certain customary representations and warranties in relation to the Acquisition and the issue of the Acquisition Shares.

1.6 Indemnification

Standard Life Aberdeen has indemnified Phoenix and the Group against employment liabilities arising prior to Completion. Phoenix has indemnified Standard Life Aberdeen and members of the Standard Life Aberdeen Group against employment liabilities arising following Completion or as a result of its failure to provide Standard Life Aberdeen with information about measures in connection with the transfer of employees.

Standard Life Aberdeen has indemnified Phoenix and the Group against the Pensions Regulator using its statutory powers to require them to pay any money into or otherwise financially support any Standard Life Aberdeen defined benefits pension scheme as a result of acquiring SLAL and its subsidiaries. The potential powers of the Pensions Regulator are time limited by the periods set out in the Pensions Act 2004. Standard Life Aberdeen has also indemnified Phoenix against certain potential pensions liabilities of SLAL and its subsidiaries arising in Ireland and against the risk of any pensions liabilities arising in Germany in respect of a former employee.

Standard Life Aberdeen has further indemnified Phoenix:

(a) in respect of losses arising from certain alleged conduct issues in connection with the German and Austrian businesses. Phoenix will not be able to claim under this indemnity until any associated provision in the SLAL accounts has been fully utilised;

(b) in connection with the expected recapitalisation of SLIDAC as part of SLAL's Brexit planning which involves undertaking a Part VII transfer of the Irish and German branch policies to SLIDAC;

(c) in connection with potential adverse lapse experience in relation to certain UK unit-linked products within the non-profit fund; and

(d) for any losses arising due to a demand for payment under the guarantee provided by SLAL in respect of the Regulatory Capital Instruments. For a description of the Regulatory Capital Instruments and the collateralisation arrangement related to the Regulatory Capital Instruments under the Share Purchase Agreement, please see the section headed "*Description of certain other indebtedness*" in Part X ("*Operating and Financial Review of Standard Life Assurance*") of this document.

For a description of certain other indemnities given by Standard Life Aberdeen in favour of the Company, please see the description of the Deed of Indemnity at paragraph 3 ("*Principal Terms of the Deed of Indemnity*") of this Part XIV ("*Terms of the Acquisition*").

The indemnities are subject to specific and overall caps on liability.

1.7 Limitations on liability

Standard Life Aberdeen's total liability in respect of all claims relating to the Acquisition is not to exceed £2.93 billion. This includes claims pursuant to the core warranties (e.g., related to the Seller's title to the shares) in the Share Purchase Agreement but excludes claims pursuant to the Transitional Services Agreement, the Client Service and Proposition Agreement, the Investment Management Agreement and the Trade Mark Licence Agreement. A sub-cap of £730 million applies to other claims in relation to the Acquisition, including pursuant to non-core warranty claims, the Tax Deed and the Deed of Indemnity described in paragraph 3 ("*Principal Terms of the Deed of Indemnity*") of this Part XIV ("*Terms of the Acquisition*").

1.8 Covenants until Completion

Standard Life Aberdeen has undertaken that SLAL and its subsidiaries will be run in the ordinary course of business until Completion and will not make any material change to the nature of the business. The Share Purchase Agreement contains customary restrictions on the conduct of certain activities by SLAL prior to Completion and there are specific covenants for Standard Life Aberdeen to, for example, ensure that SLAL continues to carry out Brexit planning activities.

In addition to the restructuring of the SLAL group referred to in paragraph 1.2 above and the transfer of the employees referred to in paragraph 1.10 below, Standard Life Aberdeen shall take steps to transfer certain assets from SLESL to the SLAL group in the period prior to Completion.

The Company has undertaken that in the period prior to Completion, save with Standard Life Aberdeen's consent, no member of the Group will enter into any transaction (or series of transactions) to acquire or dispose of, or agree to acquire or dispose of, any business or undertaking for an aggregate consideration in excess of £350 million (other than the entry into of certain transactions with pension scheme trustees in connection with the bulk purchase of annuities or the transfer of longevity, mortality or investment risk from a pension scheme to a Phoenix Life Company or the acquisition or disposal of securities in any company as part of ordinary and usual course investment management activity of a Phoenix Life Company). In addition, the Company may not enter into any transaction or financing that is material to the Group as a whole without giving prior written notice to Standard Life Aberdeen.

1.9 Purchase Price Adjustment

For details of the purchase price adjustment in connection with the Share Purchase Agreement, see paragraph 2 ("*Principal Terms of the Purchase Price Adjustment*") of this Part XIV ("*Terms of the Acquisition*").

1.10 Employment and pensions

It is anticipated, subject to appropriate consultation, that the Standard Life Aberdeen employees required to support the Standard Life Assurance business who are not already employed by SLAL will transfer to Standard Life Assets and Employee Services Limited, a newly-incorporated subsidiary of SLAL ("**SLAL Newco**"). It is anticipated that approximately 3,200 full-time equivalent employees in total (including employees of SLAL) will be included as part of the Acquisition. Standard Life Aberdeen, with Phoenix's support, will manage the transfer, which is likely to be pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("**TUPE**") and will be confirmed following appropriate consultation with employees or their representatives where required.

The Share Purchase Agreement includes an apportionment of employment liabilities before and after Completion and the usual TUPE indemnities for pre-transfer liabilities, failure to consult and the transfer of employees who have not been identified as assigned to the Standard Life Assurance business. Standard Life Aberdeen has provided a list of employees assigned to Standard Life Assurance. Standard Life Aberdeen and Phoenix will agree whether any additional employees are required for the effective operation of Standard Life Assurance and Standard Life Aberdeen will then allocate such employees to Standard Life Assurance. Such employees (who are not already employed by SLAL) and their representatives will be informed about their inclusion on the list and about their potential transfer before it is confirmed. In the period prior to Completion, Standard Life Aberdeen may not re-assign or offer employment following Completion to employees who are assigned to the Standard Life Assurance business without Phoenix's consent.

Standard Life Aberdeen has undertaken to remove the subsidiaries of SLAL from participation in the defined benefits and (unless Phoenix elects otherwise) defined contribution pension schemes sponsored in Ireland prior to Completion and to procure the release of SLAL from a funding agreement and charge entered into in favour of the trustees of the defined benefits scheme.

1.11 Tender

The Share Purchase Agreement anticipates that the Company will continue to pursue its stated strategy of acquiring new businesses. Assets may be acquired by way of acquisition activity, or in connection with reinsurance, bulk purchase agreements, or similar activities.

If the acquired assets are of a class of asset already managed by a subsidiary of Standard Life Aberdeen for a life company owned by the Company, then provided that: (i) the existing assets are not subject to underperformance; (ii) any costs associated with transferring the mandate for the acquired assets are paid by a subsidiary of Standard Life Aberdeen; and (iii) a fee proposal is made which is equivalent to that which applies to the existing assets, then, following the completion and satisfaction of any appropriate governance processes, arrangements shall be made for the transfer of such mandate.

If the acquired assets are of a class of asset that is not already managed by a subsidiary of Standard Life Aberdeen for a life company owned by the Company, then provided that: (i) a subsidiary of Standard Life Aberdeen can properly demonstrate that it has the capability and track record to manage such assets; (ii) any costs associated with transferring the mandate for the acquired assets are paid by a subsidiary of Standard Life Aberdeen; and (iii) a competitive fee proposal is made, then, following the completion and satisfaction of any appropriate governance processes, arrangements shall be made for the transfer of such mandate.

2. PRINCIPAL TERMS OF THE PURCHASE PRICE ADJUSTMENT

2.1 Parties

Under the terms of the Share Purchase Agreement, there may be an adjustment to the price paid by the Company in respect of the Acquisition under the Share Purchase Agreement (the "**Purchase Price Adjustment**").

2.2 Purchase Price Adjustment

It is anticipated that the assets currently managed by Standard Life Aberdeen for the Group and Standard Life Assurance shall continue under Standard Life Aberdeen's management, subject to the terms of the existing investment management agreements, as amended from time to time. In addition, assets used to support the new business distributed under the Client Service and Proposition Agreement will be managed by Standard Life Aberdeen. The value of the fees derived from the management of these assets (and the likely run-off profile of the assets) has been assumed by Standard Life Aberdeen as part of its valuation of Standard Life Assurance and therefore the price paid by Phoenix for Standard Life Assurance.

The Purchase Price Adjustment provides that certain types of withdrawals of assets can trigger increases in the consideration paid by Phoenix for Standard Life Assurance under the Share Purchase Agreement. The adjustment will be commensurate to the projected value of fees lost by Standard Life Aberdeen as a result of the withdrawal, taking into account the likely run-off profile of the withdrawn assets. Each year the aggregate value of these adjustments shall be paid by Phoenix to Standard Life Aberdeen. This means that, when a relevant asset withdrawal occurs, a matching adjustment will become due at the end of the year, and an adjustment will be due in every

subsequent year for the duration of the term of the Purchase Price Adjustment. Those subsequent adjustments will decline to match the projected theoretical run-off profile of the withdrawn assets. The exception to this is that if a relevant withdrawal with a value over £1 billion occurs then an immediate adjustment will become due (in other words, the adjustment is not aggregated with all other adjustments at the end of the year and the single payment will be equal to the future value of all adjustments due in respect of that withdrawal for the remainder of the ten-year term of the purchase price adjustment (see paragraph 2.4 below)).

Where Phoenix acquires new businesses, and those businesses include assets which subsequently become managed by Standard Life Aberdeen, the Purchase Price Adjustment due in any year will be reduced to reflect the value of the fees due to Standard Life Aberdeen in that year in respect of those assets.

2.3 Liability

The potential liability of Phoenix under the Purchase Price Adjustment is at the time of entering into the Purchase Price Adjustment and Share Purchase Agreement, unascertainable and is not subject to a maximum or minimum amount.

2.4 Term

The term of the Purchase Price Adjustment is ten years from Completion. Each party has limited termination rights, however, if Completion does not occur, or the Share Purchase Agreement is otherwise terminated, then the Purchase Price Adjustment will terminate automatically.

3. PRINCIPAL TERMS OF THE DEED OF INDEMNITY

3.1 Document and Parties

On Completion, Phoenix, Standard Life Aberdeen and SLAL will enter into a deed of indemnity (the "**SLAL Deed of Indemnity**").

3.2 Indemnity

Under the SLAL Deed of Indemnity, Standard Life Aberdeen will provide an indemnity to Phoenix in respect of certain liabilities arising out of the FCA-mandated, and Standard Life Aberdeen's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices. The aggregate liability of Standard Life Aberdeen for the matters covered by the SLAL Deed of Indemnity is capped at £155 million. This cap counts towards the sub-cap of £730 million that is described in paragraph 1.7 ("*Limitations on Liability*") of this Part XIV ("*Terms of the Acquisition*").

3.3 Provision

The SLAL Deed of Indemnity will apply to the extent that SLAL's unutilised balance sheet provision as at Completion (together with an additional reserve) is insufficient. In the event that SLAL's exposure is less than this provision (and reserve), SLAL shall pay the balance of such provision (and reserve) to Standard Life Aberdeen, together with any interest that may have accrued on such sum.

3.4 Insurance

SLAL has the benefit of insurance that is expected to respond to the indemnified matters. Under the SLAL Deed of Indemnity, SLAL will be required (without prejudice to its rights under the SLAL Deed of Indemnity) to make any available claims under this insurance, with Standard Life Aberdeen taking the benefit of any recoveries.

3.5 Monitoring Committee

The parties will set up a monitoring committee, which will consist of representatives from Phoenix, Standard Life Aberdeen and SLAL. The monitoring committee will oversee the management of costs, assist Standard Life Aberdeen in monitoring its liability and assist with setting up any redress programmes. SLAL is obligated to provide periodic updates, correspondence and other materials related to the indemnified matters to the monitoring committee.

3.6 Term

The SLAL Deed of Indemnity will expire four years from Completion.

4. PRINCIPAL TERMS OF THE TAX DEED

4.1 Document and Parties

On Completion, Phoenix and Standard Life Aberdeen will enter into a deed of tax covenant (the "**Tax Deed**").

4.2 Covenant to pay

Standard Life Aberdeen will provide Phoenix with customary protections in relation to certain tax liabilities of SLAL and SLAL's subsidiaries, including certain tax risks in connection with the restructuring of Standard Life Assurance and the Brexit contingency planning. Claims under the Tax Deed will be subject to certain exclusions and limitations, including some financial limitations as described at paragraph 1.7 ("*Principal Terms of the Share Purchase Agreement—Limitations on liability*") of this Part XIV ("*Terms of the Acquisition*").

4.3 Conduct relating to tax affairs

Standard Life Aberdeen and Phoenix will agree certain customary arrangements in relation to the settlement and conduct of tax affairs of Standard Life Assurance following Completion.

5. PRINCIPAL TERMS OF THE TRANSITIONAL SERVICES AGREEMENT

5.1 Introduction

On 23 February 2018, Phoenix and Standard Life Aberdeen agreed the form of heads of terms for a transitional services agreement (the "**TSA Heads of Terms**") to be entered into by SLESL, SLAL Newco and/or SLAL as soon as practicable pending finalisation and execution of the full-form document upon Completion (the "**Transitional Services Agreement**"). Under the TSA Heads of Terms, SLESL has agreed to continue to provide certain services or procure that certain services are provided to SLAL Newco and certain named third party beneficiaries for a specified period. In addition, certain transitional services will be provided by SLAL Newco to SLESL and certain other companies within Standard Life Aberdeen's retained group on a reverse basis for a specified period (the services to be provided or procured by SLESL or Standard Life Assurance being the "**Services**"). The list of Services to be provided with effect from Completion will be agreed between Phoenix and Standard Life Aberdeen prior to Completion. It is expected that the majority of services will be provided by SLAL Newco back to SLESL and certain other companies within the retained Standard Life Aberdeen group.

5.2 Consideration

Charges payable under the Transitional Services Agreement will be charged on a no more than pass-through basis. Charges payable will cease as Services are separated, replaced or no longer required.

5.3 Term

The Transitional Services Agreement will be effective from Completion for an initial period of three years (the "**Initial Term**"). Under the TSA Heads of Terms, the parties to the Transitional Services Agreement will discuss any proposed extension or shortening of the Initial Term in good faith and each party's agreement to an amendment to the Initial Term shall not be unreasonably withheld or delayed. No party will unreasonably withhold or delay its consent to a proposed extension where any material post-Completion separation and migration activities are ongoing.

The TSA Heads of Terms provide that the parties to the Transitional Services Agreement may agree that individual terms attaching to particular Services may be shorter or longer than the Initial Term.

5.4 Governance arrangements and warranties

Under the TSA Heads of Terms, SLESL and SLAL Newco agree to appoint individuals from each organisation who will be responsible for agreeing consents, notice periods and changes to the Transitional Services Agreement. The parties to the Transitional Services Agreement will establish governance mechanisms for operational and dispute governance.

6. PRINCIPAL TERMS OF THE CLIENT SERVICE AND PROPOSITION AGREEMENT

6.1 Parties

Phoenix and Standard Life Aberdeen have agreed heads of terms for a client service and proposition agreement (the "**CSPA Heads of Terms**") to be entered into at Completion by SLAL, certain subsidiaries of SLAL and certain subsidiaries of Standard Life Aberdeen.

6.2 Scope of the Client Service and Proposition Agreement

SLAL will continue to manufacture certain workplace products, drawdown products, individual pension products and onshore bond products, and SLIDAC will continue to manufacture certain offshore bond products. These products will continue to be made available by members of the Standard Life Aberdeen group, including via its retained platform businesses where applicable. Standard Life Aberdeen will also market and distribute these in-scope products in the UK. The Standard Life Aberdeen group will be the exclusive distributor of SLAL's and SLIDAC's in-scope products. The parties will also have rights of first refusal in relation to, in the case of SLAL and SLIDAC, insured products (and certain new products) and, in the case of Standard Life Aberdeen, non-insured long-term savings products, advisory services, products sold as part of the Workplace proposition and the provision of marketing services.

6.3 Term

The Client Service and Proposition Agreement will be effective from Completion and can be terminated on customarily limited terms. Absent such termination, it has a rolling term.

6.4 Governance and management of information

The Client Service and Proposition Agreement will provide for joint governance of the in-scope products and distribution platform, with suitable provisions to allow for the sharing of information (such as information regarding complaints and management information).

6.5 New products

New products may be added to the Client Service and Proposition Agreement and existing products may be updated or removed via a joint governance committee, where each side has equal votes. Under the terms of the Client Service and Proposition Agreement, Standard Life Assurance or SLIDAC (as applicable) has a right of first refusal in respect of new insured products and certain new products proposed by Standard Life Aberdeen. Standard Life Aberdeen shall be exclusive distributor for products that are within (or become included within) the scope of the Client Service and Proposition Agreement.

6.6 Strategy

The parties are committed to only deviating from the existing current short-term distribution plan when such deviation is jointly agreed. Following that, a series of joint one- and five-year plans will be discussed for agreement by the joint operating committee.

7. PRINCIPAL TERMS OF THE TRADE MARK LICENCE AGREEMENT

7.1 Introduction

On 23 February 2018, Phoenix and Standard Life Aberdeen agreed the form of binding heads of terms for a trade mark licence (the "**TM Licence Heads of Terms**") to be entered into by SLESL (as licensor) and SLAL (as licensee), which will be replaced by a long-form licence agreement at Completion (the "**Trade Mark Licence Agreement**").

7.2 Brands

The licence granted relates to a variety of "Standard Life" trade marks and other related marks. The licensed marks include word marks, stylised marks and logos and includes registrations in the UK, Germany, Ireland and the EU.

7.3 Scope of Licence

The licence is granted on a non-exclusive basis in relation to the business of Standard Life Assurance, save that the license is granted on an exclusive basis with respect to the specific products listed in the

Client Service and Proposition Agreement. The licence is granted in relation to the UK, Germany, Austria and Ireland.

7.4 Term

The licence is perpetual subject to termination rights arising in favour of SLESL upon (i) SLAL's material breach, (ii) SLAL's insolvency, (iii) where the licence relates to the activities under the Client Service and Proposition Agreement, the termination or expiry of the Client Service and Proposition Agreement and (iv) SLAL challenging the validity of the licensed marks.

7.5 Consideration

The licence is granted on a royalty-free basis.

7.6 Indemnity

SLAL agrees to indemnify SLESL in relation to losses arising due to SLAL's use of the licensed marks.

8. PRINCIPAL TERMS OF THE INVESTMENT MANAGEMENT AGREEMENT

8.1 Introduction

Standard Life Investments Limited ("**SLI**") was appointed in July 2006 to manage substantially all of Standard Life Assurance's investment portfolio. Pursuant to the terms of the Share Purchase Agreement, Phoenix and Standard Life Aberdeen have agreed that Standard Life Aberdeen delivers at Completion an amended and restated investment management agreement between SLAL and SLI (the "**Investment Management Agreement**") on substantially the same terms as the investment management agreement in agreed form at the time of signing of the Share Purchase Agreement. Pursuant to the Investment Management Agreement, SLI would continue to serve as the investment manager of Standard Life Assurance's investment portfolio.

8.2 Terms

The terms on which SLI originally served as investment manager of Standard Life Assurance's portfolio were of an intra-group nature. The Investment Management Agreement amends and restates the commercial terms so that they are substantially the same as the existing investment management arrangements that are in place between certain members of the Group and certain investment management entities within the Standard Life Aberdeen group. In particular, SLI retains broad discretion to manage Standard Life Assurance's investment portfolio (to the extent allocated to it) provided it does so within the pre-agreed investment guidelines. However, Standard Life Assurance reserves the right to give execution instructions in relation to the investment portfolio in certain circumstances.

Standard Life Assurance also retains certain rights to withdraw assets from SLI's management, including: (i) in circumstances where required by applicable law, to comply with a direction from a regulatory body or to meet a request from a customer of Standard Life Assurance; (ii) in circumstances where the withdrawal is required to satisfy *bona fide* cash requirements of the Group; and (iii) on three months' written notice where a withdrawal is required in connection with a Part VII transfer under FSMA. In addition, Standard Life Assurance may withdraw assets in connection with certain asset classes up to an aggregate fixed amount in each year of the Investment Management Agreement. Standard Life Assurance also has withdrawal rights where any of the assets have suffered consistent underperformance against a relevant benchmark (as determined in accordance with the Investment Management Agreement). Subject to certain conditions, Standard Life Assurance may also withdraw assets on 30 days' written notice, where Standard Life Assurance considers such withdrawal necessary to protect the interests of policyholders.

8.3 Termination

The Investment Management Agreement may be terminated by either party on three years' written notice. The agreement also includes customary early termination rights in circumstances where either party becomes insolvent or subject to equivalent or similar creditor arrangements, SLI ceases to hold appropriate regulatory permissions to continue to serve as an investment manager, it is necessary to terminate the agreement to comply with a legal or regulatory requirement or either party is in material breach of the agreement.

8.4 Indemnity

Pursuant to the Investment Management Agreement, SLI shall indemnify Standard Life Assurance against any losses and liabilities arising from negligence, breach of the Investment Management Agreement, breach of its duty of care, wilful default or fraud on the part of SLI or any delegate or its or their officers, employees or agents. Standard Life Assurance shall indemnify SLI against all, losses, costs, claims, damages, liabilities and expenses incurred by SLI in consequence of Standard Life Assurance's fraud, wilful default or negligence.

9. PRINCIPAL TERMS OF THE RELATIONSHIP AGREEMENT

9.1 Introduction

Standard Life Aberdeen and Phoenix have agreed the terms of a relationship agreement to be entered into upon Completion to govern Standard Life Aberdeen's holding of Shares and the continuing relationship between the parties following Completion (the "**Relationship Agreement**"). The Relationship Agreement is conditional upon the Re-admission occurring, and will cease to be effective if: (i) at any time following Re-admission the Shares are no longer listed on the premium listing segment of the Official List and admitted to trading on the Main Market; or (ii) Standard Life Aberdeen and its subsidiary undertakings (excluding any member of the Group) (the "**Standard Life Aberdeen Group Members**") cease to be interested in aggregate in at least 10 per cent. of the Shares from time to time (excluding Shares held by Standard Life Aberdeen for the purposes of providing asset management services to a person other than Standard Life Aberdeen or any of its associates (excluding any of its subsidiary undertakings from time to time) ("**Asset Management Shares**")).

In connection with the Company's plans to put in place a new UK-registered holding company for the Group as soon as is practicable following Completion, Standard Life Aberdeen undertakes to enter into a new relationship agreement with the new UK-registered holding company on substantially the same terms as the Relationship Agreement.

As a result of Standard Life Aberdeen's direct and indirect (as a result of its investment management business) shareholding in the Company, following Completion, Standard Life Aberdeen and the Company will be "acting in concert" for the purposes of the City Code and Standard Life Aberdeen will also be a "related party" of the Company for the purposes of Listing Rule 11.

9.2 Board composition and Board committees

Under the Relationship Agreement, subject to compliance with applicable law or regulations, for so long as the aggregate holding of Shares by all Standard Life Aberdeen Group Members (excluding any Asset Management Shares) (the "**Standard Life Aberdeen Group Holding**") is: (i) at least 15 per cent. of the Shares, Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) two non-executive directors to the Board; and (ii) at least 10 per cent. of the Shares (but less than 15 per cent.), Standard Life Aberdeen shall be entitled to appoint (and remove and reappoint) one non-executive director to the Board.

9.3 Independence and conduct

The Relationship Agreement provides that:

(a) all transactions or relationships between a Standard Life Aberdeen Group Member and any member of the Group must be conducted at arm's length and on normal commercial terms;

(b) no Standard Life Aberdeen Group Member shall take any action that would have the effect of preventing the Company from carrying on an independent business as its main activity or preventing the Company from complying with its obligations under the Listing Rules; and

(c) any members of the Board nominated by Standard Life Aberdeen shall be deemed to have an interest in any matter in respect of which the Chairman determines that there is a material conflict between the interests of any Standard Life Aberdeen Group Member or director nominated by Standard Life Aberdeen on the one hand and the interests of any member of the Group on the other, in each case, in relation to the relevant matter. In relation to such matter, information provided to the Board shall not be provided to the members of the Board nominated by Standard Life Aberdeen unless, in the case of commercial negotiations between the Company and a Standard Life Aberdeen Group Member, adequate information barriers are in place to prevent any information being

shared with any individuals acting on behalf of a Standard Life Aberdeen Group Member if to do so would materially disadvantage the Company or advance Standard Life Aberdeen's ability to negotiate with the Company.

9.4 Standstill

Under the Relationship Agreement, Standard Life Aberdeen undertakes that, for a period of two years following Completion and subject to customary exemptions, it will not (and will procure (so far as it is legally able to do so) that each other Standard Life Aberdeen Group Member will not) purchase, receive or otherwise obtain Shares, or agree to do any of the above if such action would result in:

(a) the Standard Life Aberdeen Group Holding increasing above 24.9 per cent. of the Company's total issued share capital;

(b) if the Standard Life Aberdeen Group Holding has already increased above 24.9 per cent. with the prior written consent of the Company, any increase in the Standard Life Aberdeen Group Holding; or

(c) the aggregate of the Standard Life Aberdeen Group Holding and the Asset Management Shares (the "**Aggregate Holding**") representing an interest in Shares which (taken together with Shares in which persons acting in concert are interested) carries 30 per cent. or more of the rights attaching to Shares to vote at general meetings of the Company (the "**Aggregate Limit**").

The Relationship Agreement further provides that this standstill shall remain in effect for a period of six months following any time at which the key provisions of the Relationship Agreement cease to be effective due to the Standard Life Aberdeen Group Holding falling below 10 per cent. of the Shares.

9.5 Disposal of Shares and orderly marketing

The Relationship Agreement contains lock-up provisions pursuant to which Standard Life Aberdeen undertakes for a period of 12 months from the date of the Relationship Agreement, subject to the exemptions outlined below, that neither it, nor any other Standard Life Aberdeen Group Member will dispose in any way, or agree to dispose in any way, of its interests in any Shares in such a way that reduces the Standard Life Aberdeen Group Holding.

After the expiry of the lock-up period, the Standard Life Aberdeen Group Members are entitled to sell Shares under an exemption or provided that:

(a) no Standard Life Aberdeen Group Member shall transfer (or agree to transfer) Shares if Standard Life Aberdeen has actual knowledge or a reasonable expectation when committing to the transfer that such transfer would result in any person holding (together with its persons acting in concert) 30 per cent. or more of the Shares; and

(b) Standard Life Aberdeen notifies the Company in advance of its initial disposal of Shares and of any disposal of more than five per cent. of the Shares and takes into account any reasonable representations made by the Company regarding the impact of the proposed disposal on the maintenance of an orderly market in the Shares.

The lock-up restrictions in the Relationship Agreement shall not apply:

(a) if a majority of the Directors not appointed by Standard Life Aberdeen have given their consent to the relevant transaction;

(b) to any disposal by Standard Life Aberdeen that is necessary to ensure that the Aggregate Holding is not at any time equal to or greater than the Aggregate Limit;

(c) in the event of an intervening court order;

(d) to the acceptance of an offer (in accordance with the Articles or applicable law or regulation) made to Shareholders (or to all Shareholders other than the offeror and/or any persons acting in concert with the offeror) to acquire all the Shares (other than any Shares already owned by the offeror and any person acting in concert with the offeror) or to the execution of an irrevocable undertaking to accept such offer;

(e) to any actions pursuant to a compromise or arrangement under the Companies Law, or applicable law from time to time between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them) and which is agreed to by the requisite majority of the members (or class of members) of creditors (or class of creditors), as the case may be, and sanctioned by the relevant authorities;

(f) to the acceptance of an offer by the Company to purchase its own shares which is made on identical terms to the holders of shares of the same class and otherwise complies with applicable law; and

(g) to any transfer by Standard Life Aberdeen to a Standard Life Aberdeen Group Member provided that: (i) in the event that any transferee under this exemption ceases, prior to the expiry of the lock-up period, to be a Standard Life Aberdeen Group Member, such transferee shall transfer the transferred Shares back to Standard Life Aberdeen; and (ii) the transferee shall enter into a deed of adherence to be bound by the restrictions of the Relationship Agreement.

9.6 Key Company undertakings

The Company undertakes that it shall not undertake any redemption or purchase of its own Shares or any other reduction in its share capital:

(a) without the prior written consent of Standard Life Aberdeen if such action would or might reasonably be expected to result in any Standard Life Aberdeen Group Member being obliged to make an offer (in accordance with the Articles or applicable law or regulation) to Shareholders (or to all Shareholders other than the relevant Standard Life Aberdeen Group Member and/or any persons acting in concert with it) to acquire all the Shares (other than any Shares already owned by the relevant Standard Life Aberdeen Group Member and/or any persons acting in concert with it); or

(b) in the event that the Aggregate Holding is less than 20 per cent. of the Company's total issued share capital, without obtaining the prior written consent of Standard Life Aberdeen (such consent not to be unreasonably withheld or delayed) if such action would or might reasonably be expected to result in the Aggregate Holding increasing to or exceeding 20 per cent. of the Company's total issued share capital.

If the Company wishes to issue new Shares for cash subscription and the participation by any Standard Life Aberdeen Group Member in such subscription would or might reasonably be expected to result in the circumstances described in paragraphs 9.6(a) or in 9.6(b), then the parties will discuss in good faith ways of facilitating the Standard Life Aberdeen Group's participation in such subscription which would not result in the circumstances described in paragraphs 9.6(a) or in 9.6(b) above.

The Company undertakes to procure that the Board will not exercise any of its powers under Articles 150 and 250 to 259 of the Articles (the "**Takeover Provisions**") that relate to takeover offers for the Company against any Standard Life Aberdeen Group Member, or against any person deemed by the Board to be acting in concert with any Standard Life Aberdeen Group Member, without first consulting with Standard Life Aberdeen and allowing it: (i) a reasonable opportunity to make representations to the Board in respect of any such proposed exercise; and (ii) a reasonable period to sell down any Excess Shares (as defined in the Articles). The Company agrees that no Standard Life Aberdeen Group Member shall be treated as holding or interested in any Asset Management Shares for the purposes of the Takeover Provisions (provided that the Aggregate Holding is not at any time equal to or greater than the Aggregate Limit). The Company has agreed that it shall not exercise its powers under Article 253 (or any other Article) to determine that the voting rights attached to any Asset Management Share be incapable of being exercised.

PART XV—ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Company and the Directors, whose names appear in paragraph 5.1 ("*Directors*") of this Part XV ("*Additional Information*"), accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2. INCORPORATION AND REGISTERED OFFICE

(a) Phoenix Group Holdings (defined above as the "**Company**"), previously named Liberty International Acquisition Company, Liberty Acquisition Holdings (International) Company and Pearl Group, was incorporated under the laws of the Cayman Islands with registered Number 202172 as an exempted company with limited liability on 2 January 2008.

(b) On 13 February 2008, the Company changed its name to "Liberty Acquisition Holdings (International) Company". On 2 September 2009, the Company changed its name to "Pearl Group". On 15 March 2010, the Company changed its name to "Phoenix Group Holdings".

(c) The Company's registered office is at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business is at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU. The Company's telephone number is +44 (0) 203 567 9169.

(d) The principal legislation under which the Company operates is the Companies Law and the Shares are issued pursuant to the terms of the Articles and the Companies Law.

3. SHARE CAPITAL

3.1 History

The number of Shares authorised and issued and allotted as at 31 December 2017, 2016 and 2015 was as follows:

	Authorised	Issued and allotted
As at 31 December 2017	410,000,000	393,232,644
As at 31 December 2016	410,000,000	392,849,817
As at 31 December 2015	410,000,000	225,419,446

During the year ended 31 December 2015, the issued share capital of the Company was increased by 329,162 ordinary shares, which related to the Company's Sharesave Scheme.

During the year ended 31 December 2016, the issued share capital of the Company was increased by 167,430,371 ordinary shares, which related to the AXA Transaction, the Abbey Life Acquisition and the Company's Sharesave Scheme.

During the year ended 31 December 2017, the issued share capital of the Company was increased by 382,827 ordinary shares, which related to the Company's Sharesave Scheme.

3.2 Existing shareholder authorities

At an annual general meeting ("**AGM**") of the Company convened and held on 2 May 2018 (the "**2018 AGM**"), the following resolution, among others, was passed.

The sixteenth resolution provided the Directors the authority to allot Shares pursuant to the Articles in accordance with the Share Capital Management Guidelines of the Investment Association. Paragraph A of the resolution provides the Directors with the authority to allot Shares up to an aggregate nominal amount equal to €13,108.38 (representing 131,083,812 Shares). This represents approximately one third of the Company's issued ordinary share capital as at 14 March 2018 (being the latest practicable date prior to the publication of the 2018 AGM notice dated 27 March 2018 (the "**2018 AGM Notice**")). In line with the guidance issued by the Investment Association, paragraph B of the resolution gives the Directors the authority to allot further Shares in connection with a rights issue in favour of holders of Shares (or interest therein) up to an aggregate nominal amount,

including the Shares referred to in paragraph A of the resolution, of €26,216.76 (representing 262,167,624 Shares). This amount represents approximately two thirds of the Company's issued ordinary share capital as at 14 March 2018 (being the latest practicable date prior to the publication of the 2018 AGM Notice). The authority provided under the resolution will expire at the conclusion of the 2019 annual general meeting of the Company (or, if earlier, at the close of business on the date which is 15 months after 2 May 2018).

3.3 Shareholder authorities proposed at the General Meeting

The Resolutions are set out in the Notice of General Meeting in the section of this document headed "*Notice of General Meeting*" and it is proposed that the Resolutions will be voted on at the General Meeting on 25 June 2018. For a summary of the Resolutions, see paragraph 15 ("*General Meeting*") of Part I ("*Letter from the Chairman of Phoenix Group Holdings*") of this document.

3.4 Authorised share capital

The Company has one class of ordinary shares (the "**Shares**"). The ISIN of the Shares is KYG7091M1096 and the SEDOL number is B45JKK9.

The number of Shares issued as at 1 January 2017, being the first day of the Company's last complete financial year, and as at 31 December 2017, being the last day of the Company's last complete financial year, is as follows:

	Authorised	Issued and allotted
As at 31 December 2017	410,000,000	393,232,644
As at 1 January 2017	410,000,000	392,849,817

Immediately prior to the publication of this document, the authorised share capital of the Company was €120,000, comprising 1,200,000,000 Shares of €0.0001 each, of which 393,262,255 Shares were issued (all of which were fully paid or credited as fully paid).

3.5 Outstanding Lender Warrants

As at the date of this document, there were 5 million Lender Warrants (as defined below) outstanding. Each Lender Warrant is exercisable into 1.027873 Shares of the Company at a warrant price of £14.59 per share. If they are exercised, the Company will be required to issue up to 5,139,365 additional Shares.

3.6 Share or loan capital

Save as disclosed in this document, including in paragraphs 3.5 ("*Outstanding Lender Warrants*"), 7 ("*Interests of Major Shareholders*") and paragraph 12 ("*Material Contracts*") of this Part XV ("*Additional Information*"):

(a) no share or loan capital of the Company, other than intercompany loans, has, since the date of incorporation of the Company on 2 January 2008, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of any such company; and

(c) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

3.7 Description of the Company's share capital and Lender Warrants

Set out below is a description of the Shares and the Lender Warrants and summaries of certain provisions of the Articles.

3.7.1 *Shares*

Shareholders have voting rights for the election of the Directors and all other matters requiring shareholder action. Shareholders are entitled to one vote per share on matters to be voted on by Shareholders and also are entitled to receive such dividends, if any, as may be declared from time to

time by the Board in its discretion out of funds legally available therefore. There is no cumulative voting with respect to the election of the Directors, with the result that the holders of more than 50 per cent. of the shares voted for the election of the Directors can elect all of the Directors.

Other than as provided in the Articles, the Shareholders have no conversion, pre-emption or other subscription rights, and there are no sinking fund or redemption provisions applicable to the shares. For information on Shareholders' pre-emption rights, see paragraphs 4.1.10 ("*Pre-emption rights*") and 4.1.11 ("*Disapplication of pre-emption rights*") of this Part XV ("*Additional Information*").

The Shares are in registered form and may be held in certificated form or in uncertificated form as Depositary Interests in CREST.

3.7.2 ***Lender Warrants***

On 2 September 2009, the Company issued 5 million warrants over its shares to the certain entities providing finance to the Group (the "**Lender Warrants**"). These warrants entitled the holder to purchase one 'B' ordinary share at a price of £15 per share, subject to adjustment. Following the achievement of the Company's premium listing on 5 July 2010, the Lender Warrants relate to ordinary shares rather than 'B' ordinary shares. At 31 December 2015 the terms of Lender Warrants entitled the holders to purchase 1.027873 ordinary shares per Lender Warrant for an exercise price of £14.59. The holder of the Lender Warrants may elect to exercise the warrant and pay the exercise price either in cash or by assigning to the Company an amount of outstanding principal and/or accrued but unpaid interest of any debt that is owed to the holder of the Lender Warrant by the Company or any subsidiary of the Company.

The Lender Warrants will expire at the close of trading on Euronext Amsterdam (5:30 p.m., Central European Time), or such other primary exchange on which the Shares are traded, on the earliest to occur of: (i) the first Business Day following the fifteenth anniversary of issuance of the Lender Warrants; (ii) the date fixed for redemption of the Lender Warrants as set forth below; and (iii) the liquidation of the Company.

The Company may call the Lender Warrants for redemption: (i) in whole but not in part; (ii) at a price of €0.01 per Lender Warrant; (iii) upon not less than 30 days' prior written notice of redemption to each holder of Lender Warrants; and (iv) if, and only if, the last sale price of the Shares equals or exceeds £18.97 (or the euro equivalent of that price) per share for any 20 consecutive trading days during the exercise period.

If the foregoing conditions are satisfied and the Company issues a notice of redemption of the Lender Warrants, each holder of Lender Warrants shall be entitled to exercise its warrant prior to the scheduled redemption date. Upon a redemption, the holder will have the opportunity to effect a cashless exercise of the Lender Warrants. If the holder elects to make a cashless exercise, the holder would pay the exercise price by surrendering the Lender Warrants for that number of Shares equal to the quotient obtained by dividing (i) the product of the number of Shares underlying the Lender Warrants multiplied by the difference between the exercise price of the Lender Warrants and the fair market value by (ii) the fair market value. For this purpose, "fair market value" means the average reported last sale price of the Shares for the ten consecutive trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of the Lender Warrants.

The exercise price and number of Shares issuable on exercise of the Lender Warrants may be adjusted in certain circumstances including in the event of a share dividend, sub division of shares, reverse share split or a recapitalisation, reorganisation, merger or consolidation, provided that the Company shall not do anything that would give rise to an adjustment which would cause the exercise price of the Lender Warrants to be reduced to an amount that is less than the nominal value of a Share. The Rights Issue will not result in any adjustment to the exercise price or the number of Shares issuable on the exercise of the Lender Warrants.

The Lender Warrants have been created under, and their terms are governed by, the laws of the Cayman Islands.

3.8 CREST and Depositary Interests

The Company has entered into depositary arrangements to enable investors to settle and pay for interests in the Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non UK incorporated

companies, such as the Company, cannot themselves be held electronically (i.e., in uncertificated form) or transferred in the CREST system. However, depositary interests, representing the securities, can be dematerialised and settled electronically. The Depositary holds, through a custodian, the Shares and issues dematerialised depositary interests representing the underlying Shares which are held on trust for the holders of the depositary interests.

Through the custodian nominated by the Depositary (the "**Custodian**"), the Depositary holds the beneficial title to the Shares on trust for participating members to whom it issues the dematerialised depositary interests or "**Depositary Interests**".

The Depositary Interests are independent securities constituted under English law which are held and transferred through the CREST system.

The Depositary Interests have been created pursuant to and issued on the terms of the Deed Poll. Prospective holders of Depositary Interests should note that they will have no rights in respect of the underlying Shares or the Depositary Interests representing them against Euroclear UK & Ireland Limited or its subsidiaries.

Although the Company's register shows the Custodian as the legal holder of the Shares, the beneficial interest in the Shares remains with the Depositary Interest holder, who has the benefit of all the rights attaching to the Shares as if the Depositary Interest holder were named on the certificated share register itself.

Under the Deed Poll, the Depositary may require any holder of Depositary Interests to disclose information as to the capacity in which it owns Depositary Interests and the nature of its interests. In addition, the Disclosure Guidance and Transparency Rules apply to holders of Depositary Interests in the same manner as if they held legal title to the Shares represented by their Depositary Interests.

Each Depositary Interest is treated as one Share for the purposes of determining the rights attaching to that Depositary Interest, for example, eligibility for any dividends. The Depositary Interests have the same security code (ISIN) as the underlying Shares and do not require a separate listing on the Official List. The Depositary Interests are capable of being traded and settlement is within the CREST system in the same way as any other CREST securities.

The documents relating to the Depositary Interests are described in paragraph 13 ("*Depositary Contracts*") of this Part XV ("*Additional Information*").

4. ARTICLES OF ASSOCIATION AND MANDATORY TAKEOVER BIDS, SQUEEZE-OUT AND SELL-OUT RULES

4.1 Seventh amended and restated memorandum and articles of association

Phoenix's current memorandum and articles of association are the seventh amended and restated Memorandum and Articles of Association.

Clause 3 of the Memorandum provides that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by law as provided by the Companies Law.

The Articles are available for inspection at the address specified in paragraph 23 ("*Documents Available for Inspection*") of this Part XV ("*Additional Information*").

Set out below is a summary of the provisions of the Articles.

4.1.1 *Share rights*

Subject to the provisions of the Companies Law, and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine.

4.1.2 *Voting rights*

Subject to any rights or restrictions attached to any shares, every member who is present in person (or in the case of a corporation is present by a duly authorised representative) shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

4.1.3 *Dividends and other distributions*

Subject to any rights or restrictions attached for the time being to any shares and the Company obtaining any regulatory approvals, the Directors may from time to time declare dividends (including

interim dividends) and other distributions on shares in issue and authorise payment of the same out of the funds of the Company lawfully available therefore (including, subject to the Companies Law, from the share premium account). Subject to any rights or restrictions attached for the time being to any shares, the Company by ordinary resolution may declare dividends (including interim dividends) in accordance with the respective rights of the members, provided that no dividend shall exceed the amount recommended by the Board.

Every dividend shall, at any point prior to its payment, be cancellable or deferrable by the Board if such cancellation or deferral is required by an applicable law or regulation (including, without limitation, to meet any applicable capital requirement) or if the Board considers, in its sole discretion, that it would be appropriate or prudent to cancel or defer any such dividend. Accordingly, any dividend declared by ordinary resolutions shall only be payable subject to the condition that it shall not have been cancelled or deferred by the Directors prior to its payment (whether or not such conditionality is expressly provided for in the relevant resolution). If the Directors act in good faith they shall not incur any liability to the members of the company or any of them in respect of any decision by the Board to cancel or defer a dividend.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. All dividends shall be apportioned and paid proportionately according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is allotted or issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

The Board may make payments in cash or in specie and the Board may make arrangements as it sees fit to settle any difficulty arising in connection with such payments.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the Board) of all or any dividend specified by that resolution.

Any dividend or moneys payable in respect of the shares may be paid in any manner as the Directors may determine, including by inter bank transfer, electronic form, electronic means or other means approved by the Directors directly to an account (of a type approved by the Directors) nominated in writing by the member, or by cheque, warrant or other similar financial instrument made payable to the member entitled to it. Different methods of payment may apply to different members or groups of members. The Directors may also decide the currency and the exchange rate for such currency.

If the Directors decide that payments will be made by electronic transfer to an account (of a type approved by the Directors) nominated by a member, but no such account is nominated by the member or an electronic transfer into a nominated account is rejected or refunded, the Company may credit the amount payable to an account of the Company to be held until the member nominates a valid account. An amount credited to an account under the foregoing is to be treated as having been paid to the member at the time it is credited to that account. The Company will not be a trustee of the money and no interest will accrue on the money.

The Company shall be entitled to cease sending dividend warrants and cheques by post or otherwise to a member if those instruments have been returned undelivered to, or left uncashed by, that member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish the member's new address. The entitlement conferred on the Company by the Articles in respect of any member shall cease if the member claims a dividend or cashes a dividend warrant or cheque.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

4.1.4 ***Variation of rights***

Subject to the provisions of the Companies Law, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class of shares may (unless otherwise provided by the terms of allotment of the shares of that class) be varied or abrogated (whether the Company is being wound up or not) either with the consent in writing of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special

resolution passed at a separate general meeting of the holders of the shares of that class, but not otherwise.

4.1.5 ***Lien and forfeiture***

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. Subject to the terms of allotment, the Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. If a payment is not made when due, the Board may give not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. If that notice is not complied with, any share in respect of which it was given may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board. The forfeiture shall include all dividends or other moneys payable in respect of the forfeited share which have not been paid before the forfeiture. The forfeited share shall be cancelled, sold, re allotted or otherwise disposed of by the Company on such terms and in such manner as the Board determines and proceeds arising from such sale shall be deemed to be the property of the Company.

4.1.6 ***Transfer of shares***

The instrument of transfer of a share may be in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor. The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a share unless the instrument of transfer:

(i) is lodged, duly stamped (if liable to be stamped), at the registered office or other place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

(ii) is in respect of only one class of shares; and

(iii) is in favour of not more than four transferees.

The Directors may suspend the registration of transfers provided that such registration shall not be suspended for more than 45 consecutive days in any year.

If it comes to the notice of the Board that a holder or beneficial owner of any share is a person whose holdings of, or to whom a transfer of, shares or an interest in shares would subject the Company to certain negative consequences (including, but not limited to, requiring the Company to register as an investment company under the US Investment Company Act 1940, as amended (the "**US Investment Company Act**") or become subject to the registration and reporting requirements under the US Securities Exchange Act 1934, as amended (the "**US Exchange Act**") and the rules promulgated thereunder), the Board may serve notice on such persons requiring the transfer of the affected share(s) or the interest in such share(s). If the Board does not receive evidence of the transfer or is not otherwise satisfied that the requirement of the notice have been satisfied, the Company may instruct a stockbroker to sell the affected share(s).

The Board may refuse to honour any requests to transfer shares to a person whose holdings of, or to whom a transfer of, shares or an interest in shares would subject the Company to certain negative consequences (including, but not limited to, requiring the Company to register as an investment company under the US Investment Company Act or become subject to the registration and reporting requirements under the US Exchange Act and the rules promulgated thereunder).

4.1.7 ***Depositary interests***

Subject to the Companies Law and any applicable laws and regulations, the facilities and requirements of any relevant system concerned and the provisions of the Articles, the Directors have power to implement and/or approve any arrangements which they may, in their absolute discretion, think fit in relation to the evidencing of title to and transfer of depositary or similar interests in shares in the capital of the Company in the form of Depositary Interests or similar interests, instruments or securities. To the extent that such arrangements are implemented, subject always to the Companies Law, no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with the holding or transfer of depositary interests or the shares in the capital of the Company represented thereby. The Directors may from time to time take such actions and do

such things as they may in their absolute discretion think fit in relation to the operation of any such arrangements.

If and to the extent that the Directors implement and/or approve any such arrangements in relation to the evidencing of title to and transfer of depositary or similar interests in shares, then the Directors shall ensure, in so far as practicable, that such arrangements provide:

(i) a holder of any such depositary or similar interests in shares with the same or similar rights as a member of the Company, including in relation to the exercise of voting rights and to the provision of information; and

(ii) the Company and the Directors with similar powers as given under the Articles in respect of a member of the Company, including the power of the Board to deduct or retain any dividend or other moneys payable to any member under the Articles, so that such power may be exercised against a holder of a depositary or similar interest in shares and the shares represented by such depositary or similar interest.

4.1.8 ***Redeemable shares and alteration of share capital***

Subject to the provisions of the Companies Law, and without prejudice to any rights attached to any existing shares or class of shares, shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of the Company or the holder on such terms, conditions and in such manner as the Board may determine.

The Company may by ordinary resolution increase, consolidate and divide or, subject to the provisions of the Companies Law, sub divide its share capital. The Company may, by ordinary resolution, also cancel shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. The Company may by special resolution reduce its share capital in any manner authorised by the Companies Law.

4.1.9 ***Authority to issue shares***

The Directors have general and unconditional authority to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe to or to convert securities into shares in the Company up to the nominal amount equal to that, and for the period, for which they have authority in the form of an ordinary or special resolution of the members.

4.1.10 ***Pre-emption rights***

The Company shall not allot any equity securities for cash without first having offered them to members holding Shares on a pro rata basis to the number of Shares held by such member in such manner as the Board may determine.

4.1.11 ***Disapplication of pre-emption rights***

The pre-emption rights referred to above do not apply to certain types of issues including those pursuant to the Lender Warrants and may be disapplied in whole or modified provided the Directors are given power by special resolution and subject to the terms of such resolution.

4.1.12 ***Purchase of own shares***

The Company may, subject to the Companies Law, purchase its own shares (including any redeemable shares), provided the members have approved the purchase by ordinary resolution. The Company may make a payment in respect of the redemption or purchase of its own shares in any manner permitted by the Companies Law, applicable law or regulation, including out of capital, profits, share premium or the proceeds of a fresh issue of shares.

4.1.13 ***General meetings***

The Board may call general meetings whenever and at such times and places as it shall determine. General meetings shall also be convened on the requisition in writing of any shareholder or shareholders entitled to attend and vote at general meetings of the Company holding five per cent. of the paid up voting share capital of the Company deposited at the head office, specifying the objects of the meeting. Having received the requisition to call a general meeting, the Directors must call a meeting within 21 days from the date on which they become subject to the requirement, and the meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

The Company is required to call an annual general meeting each year to be held within six months following its financial year end and shall call it by at least 21 clear days' notice. Subject to the

provisions of the Companies Law, all other general meetings shall be called by at least 14 clear days' notice. The notice will be sent to every member, Director and the Company's auditors. The notice will specify, among other things, the time, date and place of the meeting and the general nature of the business to be dealt with. In the case of an annual general meeting, the notice shall specify the meeting as such. In the case of a meeting to pass a special resolution, the notice shall specify the intention to propose the resolution as a special resolution.

The members of the Company may require the Company to give, to the members entitled to receive notice of the next annual general meeting, notice of a resolution which may properly be proposed and is intended to be proposed at that meeting and any matter to be included in the business to be dealt with at the annual general meeting. A resolution may properly be proposed at an annual general meeting unless it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), defamatory of any person, or it is frivolous or vexatious. Any matter may properly be included in the business at an annual general meeting unless it is defamatory of any person, or it is frivolous or vexatious.

The Company shall give notice of a resolution and/or include such a matter once it has received requests that it do so from members representing at least five per cent. of the total voting rights of all the members who have a right to vote (and in the case of a notice of a resolution, the right to vote on the resolution) at the annual general meeting to which the requests relate, or at least 100 members who have a right to vote (and in the case of a notice of a resolution, the right to vote on the resolution) at the annual general meeting to which the requests relate and hold shares in the Company on which there has been paid up an average sum, per member, of at least £100.

The Company is also obliged to publish certain information in advance of a general meeting on its website.

4.1.14 ***Disclosure of interests in shares***

The provisions of Chapter 5 (Vote Holder and Issuer Notification Rules) of the Disclosure Guidance and Transparency Rules apply to the Company as if the Company was a "UK issuer" (as defined in the Disclosure Guidance and Transparency Rules). This is in addition to, and separate from, any other rights or obligations arising under the Companies Law or otherwise.

The Board has power by notice to require any member or any other person it has reasonable cause to believe to be interested in shares or to have been so interested any time during the three years immediately preceding the date on which the notice is issued (an "interested party"), to disclose to the Company the nature of such interest and any documents to verify the identity of the interested party as the Board deems necessary.

If at any time the Board is satisfied that any member or an interested party, has been duly served with a disclosure notice under these provisions and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the Board may, in its absolute discretion at any time thereafter by notice (a "direction notice") to such member or interested party direct that, in respect of the shares in relation to which the default occurred (the "default shares"), the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll. Also, where the default shares represent at least 0.25 per cent. (in nominal value) of the issued shares of their class, the direction notice may additionally direct that in respect of the default shares:

(i) any dividend (or any part of a dividend), distribution or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it; and shall be payable (when the direction notice ceases to have effect) to the person who would but for the direction notice have been entitled to them; and/or

(ii) where an offer of the right to elect to receive shares of the Company instead of cash in respect of any dividend or part thereof is or has been made by the Company, any election made thereunder by such member in respect of such default shares shall not be effective; and/or

(iii) no transfer of any of the shares held by any such member shall be recognised or registered by the Directors unless: (1) the transfer is an excepted transfer (as such term is defined in the Articles) or (2) the member is not himself in default as regards supplying the requisite information required under the Articles and, when presented for registration,

the transfer is accompanied by a certificate by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares the subject of the transfer is a default share.

The Company is also obliged to keep a register of the interested parties.

The Board may be required to exercise their powers on the requisition of holders of the Company holding at the date of the deposit of the requisition not less than 10 per cent. of such of the paid up capital of the Company as carries at that date the right of voting at the general meetings of the Company. The requisition must state that the requisitionists are requiring the Company to exercise its powers under the relevant article, specify the manner in which they require those powers to be exercised, give reasonable grounds for requiring the Company to exercise those powers in the manner specified and must be signed by the requisitionists and deposited at the registered office.

Where a person who appears to be interested in shares has been served with a direction notice, and the shares he appears to be interested in are held by an approved depositary or nominee, then the direction notice will only apply to the shares held by the approved depositary or nominee in which that person appears to be interested and not to any other shares held by the approved depositary or nominee. Having been served with a direction notice, the obligations of an approved depositary or nominee as a member will be limited to disclosing to the Company any information relating to a person who appears to be interested in the shares held by it which has been recorded by it in accordance with the arrangement under which it was appointed as an approved depositary or nominee.

4.1.15 ***Distribution of assets on liquidation***

If the Company is wound up, the liquidator may, with the sanction of an ordinary resolution, divide among the members all or any part of the Company's assets and may value any assets and determine how the division shall be carried out; vest all or any part of the assets in trustees for the benefit of the members; and determine the scope and terms of those trusts. No member shall be compelled to accept any asset on which there is a liability.

4.1.16 ***Directors' power to vote on contracts in which they are interested***

Except as otherwise provided by the Articles, a Director shall not be entitled to vote on any resolution of the Board or a committee of the Board concerning a matter in which he has an interest (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) which (together with any interest of any person connected with him) can reasonably be regarded as likely to give rise to a conflict with the interests of the Company. This does not apply if his interest arises only because the resolution concerns one or more of the following matters:

(i) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;

(ii) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(iii) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;

(iv) a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and

(v) a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors of the Company or for persons who include Directors of the Company.

The Company may by ordinary resolution suspend or relax any provision of the Articles prohibiting a Director from voting at a meeting of Directors or of a committee of Directors to any extent, either generally or in respect of any particular matter.

Where proposals are under consideration concerning the appointment (including without limitation fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any body corporate in which the Company is interested, the proposals may be divided and considered in relation to each Director separately. In such cases each of the Directors concerned shall be entitled to vote in respect of each resolution except that concerning his own appointment.

4.1.17 ***Board authorisation of directors' interests***

The Board may authorise any matter proposed to it which would, if not so authorised, involve a breach of duty owed by a Director to the Company as a matter of law, including, without limitation, any matter which relates to a situation in which a Director has, or can have, an interest which conflicts, or possibly may conflict, with the interests of the Company. Any such authorisation will be effective only if:

(i) any requirement as to quorum at the meeting at which the matter is considered is met without counting the Director in question or any other interested Director; and

(ii) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

Provided that he has disclosed such office to the Board and where necessary such office has been approved by the Board, a Director shall not be accountable to the Company for any remuneration or other benefit which he derives from any office or employment, from any transaction or arrangement or from any interest in any body corporate.

4.1.18 ***Borrowing powers***

The Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

4.1.19 ***Directors' duties in respect of the City Code***

If and for so long as the Company shall not be subject to the City Code, the Board shall, in managing and conducting the business of the Company and in exercising or refraining from exercising any and all powers, rights and privileges use its reasonable endeavours to apply and to have the Company abide by the General Principles as set out in the City Code *mutatis mutandis* as though the Company were subject to the City Code.

In the event that circumstances arise where, if the Company were subject to the City Code, the Company would be an offeree or otherwise the subject of an approach or the subject of a third party statement of firm intention to make an offer, the Board shall use its reasonable endeavours to comply with, and procure that the Company complies with, the provisions of the City Code *mutatis mutandis* as though the Company were subject to the City Code.

In the event that the Board recommends to the shareholders of the Company or any class thereof any takeover offer made for shares in the Company from time to time, the Board shall use its reasonable endeavours to obtain the undertaking of the offeror(s) to comply with the provisions of the City Code in the conduct and the execution of the relevant offer *mutatis mutandis* as though the Company were subject to the City Code, but recognising that the Panel will not have jurisdiction (if and for so long as this may be the case).

These duties are subject to the Companies Law, to other applicable law, to any other regulation in respect of takeovers which applies to the Company at any time, and to the requirement that the Board must be satisfied that abiding by the General Principles as set out in the City Code is, in any particular case, in the best interests of the Company.

4.1.20 ***Remuneration of directors***

The ordinary remuneration of the Directors who do not hold executive office for their services including the Chairman of the Company (excluding amounts payable under any other provision of the Articles) shall not exceed in aggregate £2 million per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Should a Director who does not

hold executive office perform duties or services which are outside the scope of their ordinary duties they may be paid extra remuneration as the Board shall determine.

The emoluments of any Director holding executive office for his services as such shall be determined by the Board, and may be of any description, including, without limitation, admission to, or continuance of, membership of any scheme (including any share acquisition scheme) or fund instituted or established or financed or contributed to by the Company for the provision of pensions, life insurance or other benefits for employees or their dependants, or the payment of a pension or other benefits to him or his dependants on or after retirement or death, apart from membership of any such scheme or fund.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present Director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

The Directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

A Director shall not be required to hold any shares in the capital of the Company by way of qualification.

4.1.21 ***Appointment of directors***

Unless otherwise determined by ordinary resolution, the number of Directors (other than alternate directors) shall be not fewer than five but shall not be subject to any maximum number. Directors may be appointed by the Company by ordinary resolution or by the Board.

4.1.22 ***Retirement of directors***

At every annual general meeting, all of the Directors at the date of the notice convening the annual general meeting shall retire from office, in accordance with the rules set out in the Articles.

A Director who retires at an annual general meeting may, if willing to act, be re-appointed. If he is not re-appointed, he shall retain office until the meeting appoints someone in his place, or if it does not do so, until the end of the meeting. If however any resolution or resolutions for the appointment or re-appointment of the persons eligible for appointment or re-appointment as Directors are put to the annual general meeting and lost and at the end of the meeting the number of Directors is fewer than the minimum number required then all the retiring Directors who stood for re-appointment at that meeting shall be deemed to have been re-appointed as Directors and shall remain in office, but they may only:

(i) act for the purpose of filling vacancies and convening general meetings of the Company; and

(ii) perform such duties as are appropriate to maintain the Company as a going concern and to comply with the Company's legal and regulatory obligations,

but not for any other purpose.

4.1.23 ***Disqualification and removal of directors***

A person ceases to be a Director in a number of circumstances, including removal by notice from the Board signed by no less than three quarters of the other Directors stating that person should cease to be a Director. The Company may also, by ordinary resolution, remove any Director from office.

4.1.24 ***Indemnity***

Subject to the provisions of, and so far as may be permitted by and consistent with the Companies Law and any other applicable law or regulation, but without prejudice to any indemnity to which the person concerned may already be properly entitled as at the date of the adoption of the Articles, every Director (including for the purposes of this paragraph any alternate director appointed pursuant to the provisions of the Articles), secretary, assistant secretary or other officer for the time being and from time to time of the Company (but not including the Company's auditors) and the personal representatives of the same (each an ''Indemnified Person'') shall be indemnified and secured harmless out of the assets and funds of the Company against all actions, proceedings, costs, charges, claims, expenses, losses, damages or liabilities incurred or sustained by such Indemnified Person, other than by reason of such Indemnified Person's own dishonesty, wilful default or fraud, in or about the

conduct of the Company's business or affairs (including as a result of any mistake of judgment) or in the execution, exercise or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such Indemnified Person in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.

4.1.25 ***Takeover provisions***

The Articles adopt certain of the provisions of the City Code, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of the General Principles of the City Code (including "equal treatment") which are to be administered by the Board. These provisions (set out in Articles 150 and 250 to 258) have effect only during such times as the City Code does not apply to the Company.

Pursuant to the Articles, a person (excluding a depositary, custodian or nominee) must not:

(i) acting by himself or with persons determined by the Board to be acting in concert, seek to acquire an interest in shares in the Company, which carry 30 per cent. or more of the voting rights attributable to the shares in the Company; or

(ii) acting by himself or with persons determined by the Board to be acting in concert, and holding not less than 30 per cent., but not more than 50 per cent., of the voting rights, seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional interest in shares which, taken together with the interest in shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights, or

(iii) effect or purport to effect an acquisition which would breach or not comply with Rules 4, 5, 6, 8 or 11 of the City Code, if the Company were subject to the City Code,

except, in the case of either (i) or (ii) above, as a result of a "permitted acquisition" (meaning an acquisition either consented to by the Board, or made in compliance with Rule 9 of the City Code (as if it so applied and with such amendments as the Board may consent to), or arising from the repayment of a stock borrowing arrangement).

Where the Directors have reason to believe that any of such circumstances has taken place, then it may take all or any of certain measures:

(i) require the person(s) appearing to be interested in the shares of the Company to provide such information as the Board considers appropriate;

(ii) have regard to such public filings as may be necessary to determine any of the matters under Articles 250 to 258;

(iii) make any determination under Articles 250 to 258 as it thinks fit, either after calling for submissions by the relevant person(s) or without calling for any;

(iv) determine that the voting rights attached to such shares acquired in breach of the Articles are from a particular time incapable of being exercised for a definite or indefinite period;

(v) determine that some or all of the shares acquired in breach of the Articles are to be sold either to a third party, to a member or to the Company for cancellation;

(vi) determine that some or all of the shares acquired in breach of the Articles will not carry any right to any dividends or other distributions from a particular time for a definite or indefinite period; and

(vii) taking such actions as it thinks fit for the purposes of Articles 250 to 258, including prescribing rules not inconsistent with Articles 250 to 258, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, making determinations or interim determinations, executing documents on behalf of a shareholder, paying costs and expenses out of proceeds of sale and changing any decision or determination or rule previously made.

The Board has the full authority to determine the application of Articles 150 and 250 to 258, including the deemed application of the whole or any part of the City Code, and such authority shall include all the discretion that the Panel would exercise if the whole or part of the City Code applied to the Company. Any resolution or determination made by the Board or the chairman of any meeting acting in good faith is conclusive and is not open to challenge as to its validity or as to any

other ground. The Board is not required to give any reason for any decision, determination or exercise of discretion or power it makes. In exercising the powers under Article 150 and 250 to 258, the Board will comply with the principle that all holders of Shares that are in the same position shall be treated equally in respect of the rights attaching to their shares and otherwise in accordance with their duties under applicable law.

Subject to the Companies Law, any other applicable law or anything contained in the Articles, an approved depositary holding shares in the capital of the Company in the form of depositary interests shall not be obliged to accept the issue or transfer to it of shares, if such issue or transfer would likely result in such depositary having to make a mandatory offer for other shares in the capital of the Company. In the event that such depositary is required to make a mandatory offer to purchase other shares in the capital of the Company under applicable law, the Company shall cooperate with such depositary in seeking an exemption or waiver of such requirement and the Company shall bear all reasonable costs of such depositary in connection with seeking such exemption or waiver.

4.1.26 ***Electronic communications***

The Board may from time to time issue, endorse, adopt or amend terms and conditions relating to the use of electronic means for the sending of notices, other documents and proxy appointments by the Company to members or persons entitled by transmission.

4.1.27 ***Information rights***

A member who holds shares on behalf of another person may nominate that person to enjoy "Information Rights". This is the right to receive a copy of all communications (including the accounts and reports) that the Company sends to its members generally or to any class of its members that includes the person making the nomination, and the rights of members under the Companies Law, any applicable law or regulation and the Articles to require a single copy of the Company's last annual accounts, the last Directors' report, the last Directors' remuneration report and the auditor's report on those accounts and, free of charge, a hard copy version of a document or information provided to a member in another form. The effect of any nominations may be terminated or suspended in certain circumstances set out in the Articles.

4.1.28 ***Right to inspect the register***

Companies which are registered in the Cayman Islands are not required to file (in a manner that will be publicly available) shareholder information with the Registrar of Companies in the Cayman Islands, in contrast to the requirement for companies registered in England and Wales to file certain changes to shareholder information with Companies House in the UK. Consequently, information on shareholders of Cayman Islands registered companies will not be available to the public or to shareholders of the Company. As a result of this, the Company has inserted a right within the Articles of the Company to allow shareholders the right to inspect the Company's register of members during normal business hours. As a result of recent amendments to the Companies Law, the Company may (unless exempt) be required to maintain a non-public beneficial ownership register in the Cayman Islands.

5. DIRECTORS AND SENIOR MANAGERS

5.1 Directors

The following table lists the names, ages and positions of the Directors:

Name	Age	Position
Henry Staunton	70	Chairman and Nomination Committee Chairman
Clive C R Bannister	59	Group Chief Executive Officer
James McConville	61	Group Finance Director
Alastair Barbour	65	Senior Independent Non-Executive Director and Audit Committee Chairman
Karen Green	50	Independent Non-Executive Director
Wendy Mayall	60	Independent Non-Executive Director
John Pollock	59	Independent Non-Executive Director and Risk Committee Chairman
Belinda Richards	60	Independent Non-Executive Director
Nicholas Shott	66	Independent Non-Executive Director
Kory Sorenson	49	Independent Non-Executive Director and Remuneration Committee Chairman

The business address of each of the Directors is Juxon House, 100 St Paul's Churchyard, London EC4M 8BU.

5.1.1 ***Directors' biographies***

Henry Staunton

Chairman

Henry Staunton was appointed Chairman of the Board of Directors of the Company and Chairman of the Nomination Committee of the Company with effect from 1 September 2015. On 2 May 2018, Phoenix announced that Mr Staunton will not seek a further three year term when his current term completes on 31 August 2018. He will, however, remain in office until his successor has been found, if not before 31 August 2018. Mr Staunton is Non-Executive Chairman of WH Smith plc, the leading FTSE 250 retail group, and the Senior Independent Director of Capital & Counties Properties plc. On 24 May 2018, it was announced that Mr Staunton will be appointed Chairman of Capital & Counties Properties plc with effect from 5 June 2018. From 2004 until 2013, Mr Staunton was a Non-Executive Director, Chairman of the Audit Committee and latterly Senior Independent Director and Vice Chairman of Legal & General Group plc, where he gained significant insight into the life and pensions industry. He was also a Non-Executive Director of Ashtead Group from 1997 to 2004 including as Chairman from 2001. During his executive career he was Finance Director of ITV plc from 2003 to 2006, and Finance Director of Granada plc and subsequently Granada Media Group plc from 1993 to 2003. Prior to that he joined Price Waterhouse as a graduate trainee in 1970, rising to become a Partner in 1981.

Clive Bannister

Group Chief Executive Officer

Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer of the Company. Prior to this, Mr Bannister was Group Managing Director of Insurance and Asset Management at HSBC Holdings plc. He joined HSBC in 1994 and held various leadership roles in planning and strategy in the Investment Bank (USA) and was Group General Manager and CEO of HSBC Group Private Banking. He started his career at First National Bank of Boston and prior to working at HSBC was a partner in Booz Allen Hamilton in the Financial Services Practice providing strategic support to financial institutions including leading insurance companies, banks and investment banks. Mr Bannister is also Chairman of the Museum of London.

James McConville

Group Finance Director

James McConville was appointed to the Board of Directors of the Company as Group Finance Director with effect from 28 June 2012. Between April 2010 and December 2011, Mr McConville was Chief Financial Officer of Northern Rock plc. Prior to that, between 1988 and 2010, he worked for Lloyds Banking Group plc (formerly Lloyds TSB Group plc) in a number of senior finance and strategy related roles, latterly as Finance Director of Scottish Widows Group and Director of Finance for the Insurance and Investments Division. During 2011 and 2012, Mr McConville was a Non-Executive Director of the life businesses of Aegon UK. In 2014, Mr McConville joined the board of Tesco Personal Finance plc as a Non-Executive Director. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

Alastair Barbour

Senior Independent Non-Executive Director

Alastair Barbour has over 30 years of audit experience with KPMG, where he worked across the full spectrum of financial services clients from large general insurers and reinsurers to the life assurance and investment management sector, working on a range of operational and strategic issues. Mr Barbour is the former Head of Financial Services, Scotland for KPMG. He retired from KPMG in 2011 to build a Non-Executive career. He is a Director and Audit Committee Chairman of RSA Insurance Group plc and Liontrust Asset Management plc (both LSE-listed companies). He is also a Director and Audit Committee Chairman of CATCo Reinsurance Opportunities Fund Ltd, a Bermuda-based investment company listed on the LSE and of The Bank of N. T. Butterfield & Son Limited, a group listed on the New York Stock Exchange and in Bermuda. Mr Barbour was appointed to the Board of Directors of the Company on 1 October 2013 and was appointed Senior

Non-Executive Independent Director on 2 May 2018. He is Chairman of the Board Audit Committee and a member of the Board Nomination Committee and Risk Committee.

Karen Green

Independent Non-Executive Director

Karen Green is the former Chief Executive of Aspen UK, which comprised the UK insurance companies' global US-listed insurer and reinsurer, Aspen Insurance Holdings and was a member of the Aspen Group Executive Committee for 12 years. She also held a number of other senior positions including as Group Head of Corporate Development, Strategy, and Office of the Group CEO. She remains Deputy Chairman of Aspen Managing Agency Limited, which conducts Aspen's interests at Lloyd's of London and continues to act for the Aspen Group on a wide range of corporate development activities. Prior to that, she held various senior private equity and corporate finance roles from 1997 to 2005 at GE Capital and then MMC Capital, gaining substantial M&A experience, having worked previously at Baring Brothers and Schroders. Ms Green is a Council Member of Lloyd's of London. She is also a Vice President of the Insurance Institute of London. Ms Green was appointed to the Board of Directors with effect from 1 July 2017.

Wendy Mayall

Independent Non-Executive Director

Wendy Mayall has over thirty years of asset management experience, including as Group Chief Investment Officer and later consultant at Liverpool Victoria from 2012 to 2015, having previously been Chief Investment Officer for Unilever's UK pension fund from 1996 to 2011 and holding management responsibility for Unilever's pension funds globally. From 2006 to 2009, Mrs Mayall was the Chair of the Investment Committee of the Mineworkers Pension Scheme, a British government appointment to one of the largest government backed pension schemes in the UK. Mrs Mayall is a non-executive director of Aberdeen Global Funds (Luxembourg) and Old Mutual Wealth Oversight Council. She is also the Senior Independent Director and audit committee Chair of Fidelity Investments Life Insurance Company Limited and Chair of the Funding Committee for TPT Retirements Solutions. Mrs Mayall was appointed to the Board of Directors with effect from 1 September 2016.

John Pollock

Independent Non-Executive Director

John Pollock had a career in life assurance at the Legal & General Group from 1980 to 2015, including as an executive director of Legal & General Group plc from 2003 to 2015. Mr Pollock held numerous senior roles, gaining wide strategic and technical experience, finally as Chief Executive Officer of LGAS (L&G Assurance Society), one of Legal and Generals' three primary business units. Prior to Mr Pollock's retirement from Legal and General in 2015, he held positions as Deputy Chair of the FCA Practitioner Panel, Chairman of investment platform Cofunds, and as a non-executive director of the Cala Homes Group. Mr Pollock was appointed to the Board of Directors with effect from 1 September 2016.

Belinda Richards

Independent Non-Executive Director

Belinda Richards has held senior executive positions at KPMG, EY, and latterly Deloitte from 2000 to 2010 where she was a senior corporate finance Partner and the Global Head of Merger Integration and Separation Advisory Services. She is now an experienced non-executive director, currently on the Boards of WM Morrison Supermarkets plc, The Monks Investment Trust plc and Schroder Japan Growth Fund Plc. Previously, she has also been on the Boards of Aviva UK Life & Pensions, Grainger plc and Balfour Beatty plc. Ms Richards was appointed to the Board of Directors with effect from 1 October 2017.

Nicholas Shott

Independent Non-Executive Director

Nicholas Shott is an investment banker, who has been European Vice Chairman of Lazard since 2007 and Head of UK Investment Banking at Lazard since 2009. Mr Shott joined Lazard in 1991 and

became a partner in 1997. He also serves as a Non-Executive Director on the Board of the Home Office. Mr Shott was appointed to the Board of Directors with effect from 1 September 2016.

Kory Sorenson

Independent Non-Executive Director

Kory Sorenson is currently a Non-Executive Director and Chairman of the Audit Committee of SCOR SE, and a Non-Executive Director of Pernod Ricard SA and ProMetic Life Sciences Inc., a member of the Supervisory Board of UNIQA Insurance Group AG and a member of the Supervisory Board of the privately-owned Bank Gutmann AG. Ms Sorenson has over 25 years of experience in the financial services sector, most of which has been focused on insurance and banking. She was a Non-Executive Director of Aviva Insurance Limited, Managing Director, Head of Insurance Capital Markets of Barclays Capital and also held senior positions in the financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. She began her career in the finance department of Total SA. Ms Sorenson was appointed to the Board of Directors with effect from 1 July 2014 and is Chairman of the Remuneration Committee and a member of the Board Nomination Committee.

5.1.2 ***Other directorships/partnerships of the Board***

In respect of each Director, details are set out below of the companies (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 prior to the date of this document:

Name	Current directorship/partnership	Previous directorship/partnership
Henry Staunton.........	BrightHouse Topco Limited Capital & Counties Properties plc Caversham Finance Limited WH Smith plc	BrightHouse Group Limited ICBC Standard Bank PLC Legal & General Group plc The Merchants Trust plc
Clive Bannister..........	Doorfield Property Management Limited Dreamchasing Punter Southall Group Limited Rougemont Management Limited Unigestion Holding SA	Ignis Asset Management Limited(1) Ignis Investment Management Limited(1) Ignis Fund Managers Limited(1) Ignis Investment Services Limited(1)
James McConville.....	Tesco Personal Finance Group Limited Tesco Personal Finance plc	Ignis Asset Management Limited(1) Ignis Fund Managers Limited(1) Ignis Investment Services Limited(1)
Alastair Barbour.......	Bank of N.T. Butterfield & Son Limited CATCo Reinsurance Fund Limited CATCo Reinsurance Opportunities Fund Ltd Liontrust Asset Management plc Markel CATCo Reinsurance Fund Ltd RSA Insurance Group plc Scottish Equitable Policyholders Trust Limited	Standard Life European Private Equity Trust plc
Karen Green.............	Aspen Managing Agency Limited Aspen Risk Management Limited Aspen Underwriting Limited Council of Lloyd's Ffolkes Solutions Ltd	AIUK Trustees Limited Aspen (UK) Holdings Limited Aspen European Holdings Limited Aspen Insurance UK Limited Aspen Insurance UK Services Limited International Underwriting Association of London
Wendy Mayall...........	Aberdeen Alpha Fund Aberdeen Global Fund Aberdeen Global II Aberdeen Islamic SICAV Fund Aberdeen Liquidity Fund (Lux) Fidelity Investments Life Insurance Company Old Mutual Wealth	Aberdeen UK Tracker Trust PLC Highway Insurance Company Limited Highway Insurance Group Limited Liverpool Victoria Insurance Company Limited Liverpool Victoria General Insurance Group Limited

Name	Current directorship/partnership	Previous directorship/partnership
	Oversight Council TPT Retirement Solutions	
John Pollock.............	None	Cala 1 Limited Cala Group (Holdings) Limited Cofunds Limited Legal & General Group PLC Legal & General Holdings No.2 Limited Legal & General Insurance Limited Legal & General International (Holdings) Limited Legal & General International Limited Legal & General Overseas Holdings Limited Legal & General Partnership Services Limited Legal & General Pensions Limited Legal & General Resources Limited Legal and General Assurance Society Limited Legal and General Partnership Holdings Limited Lucida Limited
Belinda Richards.......	Monks Investment Trust Public Limited Company Schroder Japan Growth Fund plc WM Morrison Supermarkets PLC	Aviva Administration Limited Aviva Annuity UK Limited Aviva Life & Pensions UK Limited Aviva Life Holdings UK Limited Aviva Life Services UK Limited Balfour Beatty PLC Friends Life and Pensions Limited Friends Life Group Limited Friends Life Holdings PLC Friends Life Limited Grainger PLC Undershaft FAL Limited
Nicholas Shott...........	28 Smith Street Limited Home Office Lazard & Co., Holdings Limited Lazard & Co., Services Limited Lazard & Co., Limited Old Bailey 2005 LLP	None
Kory Sorenson	Bank Gutmann AG Chateau Troplong Mondot Pernod Ricard SA ProMetic Life Sciences Inc. SCOR SE SCOR Reinsurance Company (US) SCOR Global Life Americas Reinsurance Company Uniqa Insurance Group AG	Aviva Insurance Limited Institut Pasteur

Note:

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

5.2 Conflicts of interest and other matters

The Company is not aware of any conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties.

During the five years immediately prior to the date of this document, except as disclosed under paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*"), none of the Directors has:

- been convicted in relation to a fraudulent offence;
- been associated with any bankruptcies, receiverships or liquidations whilst acting in his capacity as member of an administrative, management or supervisory body of a company, a partner with unlimited liability, a founder or a member of senior management of a company;
- received an official public incrimination and/or sanction by a statutory or regulatory authority (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer; or
- been appointed as (i) a member of the administrative, management or supervisory bodies of the Company, or (ii) a member of senior management of the Company, pursuant to an arrangement or understanding with major shareholders, customers, suppliers or others.

There are no family relationships between any of the Directors, or between any of the Directors and the Senior Managers.

5.3 Senior Managers

Executive management of the Group is led by the Group Chief Executive Officer, Clive Bannister, who is supported by the Executive Committee. The Executive Committee oversees strategy matters relating to the implementation of the Group's strategy.

Clive Bannister (59)

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 (61)

Group Finance Director

- Develops and delivers the Group's financial business plan in line with strategy;
- ensures that the Group's finances and capital are managed and controlled;
- develops and delivers the Group's debt capital strategy and other treasury matters;
- ensures that 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
- enhances shareholder value through clear, rigorous assessment of business opportunities.

Andy Moss (54)

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 that Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the risk universe and strategy.

Stephen Jefford (55)

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, the Executive Committee, the Board and Remuneration Committee; and
- delivers HR services to the Group.

Antonios Kassimiotis (51)

Group Chief Operating Officer

- Leads development and delivery of the Group's operating platforms in line with regulatory requirements, the risk universe and strategy;
- ensures the delivery of the Group's information technology strategy;
- leads the management of the Group's long-term outsourcing arrangements; and
- ensures that the Group's procurement activities and shares services are efficient and effective.

Susan McInnes (55)

Chief Risk Officer

- Leads the Group's risk management function, embracing changes in best practice and regulation including Solvency II;
- oversees and manages the Group's relationship with the FCA and PRA; and
- oversees adherence to the Group's risk appetite.

Rakesh Thakrar (42)

Deputy Group Finance Director

- Leads on the Group's Annual Report and Accounts, ORSA and Pillar 3 reporting;
- manages the Group's Financial Plans and Management Information in line with strategy; and
- contributes to the effective management of the Group's balance sheet and financial plan (including M&A); and
- leads on all financial aspects of any M&A.

Simon True (49)

Group Chief Actuary

- Supports the Group Chief Executive Officer in the formulation of the strategy for the Group;
- leads implementation of the Group's strategy as regards any potential acquisition or disposal;
- ensures that capital is managed efficiently across the Group;
- manages the Group's solvency position;
- leads the development of the Group's investment strategy; and
- identifies and delivers opportunities to enhance shareholder value across the Group.

Quentin Zentner (52)

General Counsel

- Leads provision of legal advice to the Board, other Group company boards, the Executive Committee and senior management;
- oversees and coordinates maintenance of, and adherence to, appropriate corporate governance procedures across the Group;

- designs and implements a framework to manage legal risk within the Group, including compliance by Group companies and staff with relevant legal obligations; and
- designs and implements a whistleblowing framework within the Group.

5.3.1 ***Senior Managers' biographies***

Clive Bannister

See paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*"), for Mr Bannister's biography.

James McConville

James McConville was appointed to the Board of Directors as Group Finance Director on 28 June 2012. See paragraph 5.1.1 ("*Directors' biographies*") of this Part XV ("*Additional Information*"), for Mr McConville's biography.

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 Phoenix Life Companies. Prior to that Mr Moss 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, Mr Moss held a variety of roles across Nationwide Life Ltd, KPMG and Eagle Star Group.

Stephen Jefford

Stephen Jefford was appointed Group Human Resources Director in October 2016. Mr Jefford had previously worked within the Group as Head of HR at Ignis Asset Management, leaving in 2013. Prior to this role Mr Jefford has held a number of senior roles in HR across Financial Services, predominantly at HSBC where he was Head of HR for Europe and the Middle East between 2007 and 2010. Mr Jefford is a member of the CIPD and has an MBA from CASS Business School and undergraduate degrees from Bristol University and the Open University.

Antonios Kassimiotis

Tony Kassimiotis was appointed to the role of Group Chief Operating Officer on 21 March 2018, having previously been Managing Director of Operations for Phoenix Life. As Managing Director of Operations for Phoenix Life, Mr Kassimiotis' responsibilities included the management of the Group's long-term BPO outsourcing contracts, the development of the Group's IT, strategic and operating platforms, along with the delivery of the business transformation agenda. Prior to that, Mr Kassimiotis was COO for Pearl, having started with Pearl Group as its Director of IT. Before joining the Group, Mr Kassimiotis held a variety of senior operational and IT management roles across retail, life & pensions and banking sectors, having worked for Coles Myer Ltd, Colonial Mutual, Commonwealth Bank of Australia and the AMP Group.

Susan McInnes

Susan McInnes joined the Group following the acquisition of the Life Business of Abbey National in 2007 and was appointed Chief Risk Officer in March 2018. She became Customer Director in 2008 having responsibility for the service and product delivery to over 6 million customers including the on-boarding of the Abbey Life and AXA Wealth customers. Prior to joining the Group, Ms McInnes held a number of operational roles in insurance and retail banking.

Rakesh Thakrar

Rakesh Thakrar has over 20 years' experience in the life assurance industry and financial services. He joined the Group in 2001, since when he has held a number of positions including senior finance and strategy-related roles and has been responsible for the Group's financial performance, internal and external reporting obligations and supporting the delivery of the Group's strategy. Before joining Phoenix, Mr Thakrar worked for Canada Life, gaining experience in a variety of financial-related areas.

Simon True

Simon True joined the Group on 1 May 2013 as Group Chief Actuary. Before joining the Group, Mr True ran the M&A team within Resolution Limited, having joined in 2008, and was actively involved in its creation through to it inclusion in the FTSE 100 following the acquisitions of Friends Provident, AXA UK (Life), and Bupa Health. Prior to Resolution Limited, Mr True was the Group Actuary at Resolution plc until the acquisition by Pearl Group Limited in 2008. Mr True had initially joined the Resolution Life Group in February 2005: his responsibilities included running the Corporate Development team responsible for merger & acquisition activity – including the merger with Britannic, and the acquisition of the Abbey National life companies. Preceding his involvement with the various incarnations of Resolution, Mr True spent 7 years at Commercial Union (now part of Aviva), latterly in the International Division, followed by a further 7 years as a senior consultant at Tillinghast-Towers Perrin.

Quentin Zentner

Quentin Zentner was appointed as General Counsel in December 2014, having previously held the role of Director, Life Legal since August 2010. Mr Zentner was previously General Counsel at Nikko Principal Investments Ltd, a Japanese private equity company and before that was a Corporate Partner at Pinsents Curtis. Quentin is a qualified solicitor.

5.3.2 ***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 document:

Name	Current	Previous
Clive Bannister[(1)]	See above	See above
James McConville[(2)]	See above	See above
Stephen Jefford	None	None
Antonios Kassimiotis	TK PARM Distribution Limited	Sculptura UK Limited TK PARM Limited
Susan McInnes	None	None
Andy Moss	None	None
Rakesh Thakrar	Mythili Megha Limited	None
Simon True	None	Christchurch Financial Solutions Limited
Quentin Zentner	P.A.T. (Pensions) Limited P.A.T. (Pensions) Nominee Company No.1 Limited P.A.T. (Pensions) Nominee Company No.2 Limited	None

Notes:

(1) For Clive Bannister's other directorships/partnerships, please see paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*").

(2) For James McConville's other directorships/partnerships, please see paragraph 5.1.2 ("*Other directorships/partnerships of the Board*") of this Part XV ("*Additional Information*").

5.3.3 ***Conflicts of interest and other matters***

The Company is not aware of any conflicts of interest between any duties owed by Senior Managers to the Company and their private interests or other duties. The Company has procedures in place to identify and manage conflicts that may arise.

During the five years immediately prior to the date of this document, except as disclosed under paragraph 5.4.2 ("*Other directorships/partnerships of the Executive Committee*") of this Part XV ("*Additional Information*"), none of the Senior Managers has:

- been convicted in relation to a fraudulent offence;

- been associated with any bankruptcies, receiverships or liquidations whilst acting in his capacity as member of an administrative, management or supervisory body of a company, a partner with unlimited liability, a founder or a member of senior management of a company;
- received an official public incrimination and/or sanction by a statutory or regulatory authority (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer; or
- been appointed as (i) a member of the administrative, management or supervisory bodies of the Company, or (ii) a member of senior management of the Company, pursuant to an arrangement or understanding with major shareholders, customers, suppliers or others.

There are no family relationships between any of the Senior Managers, or between any of the Senior Managers and the Directors.

5.3.4 ***Share dealing code***

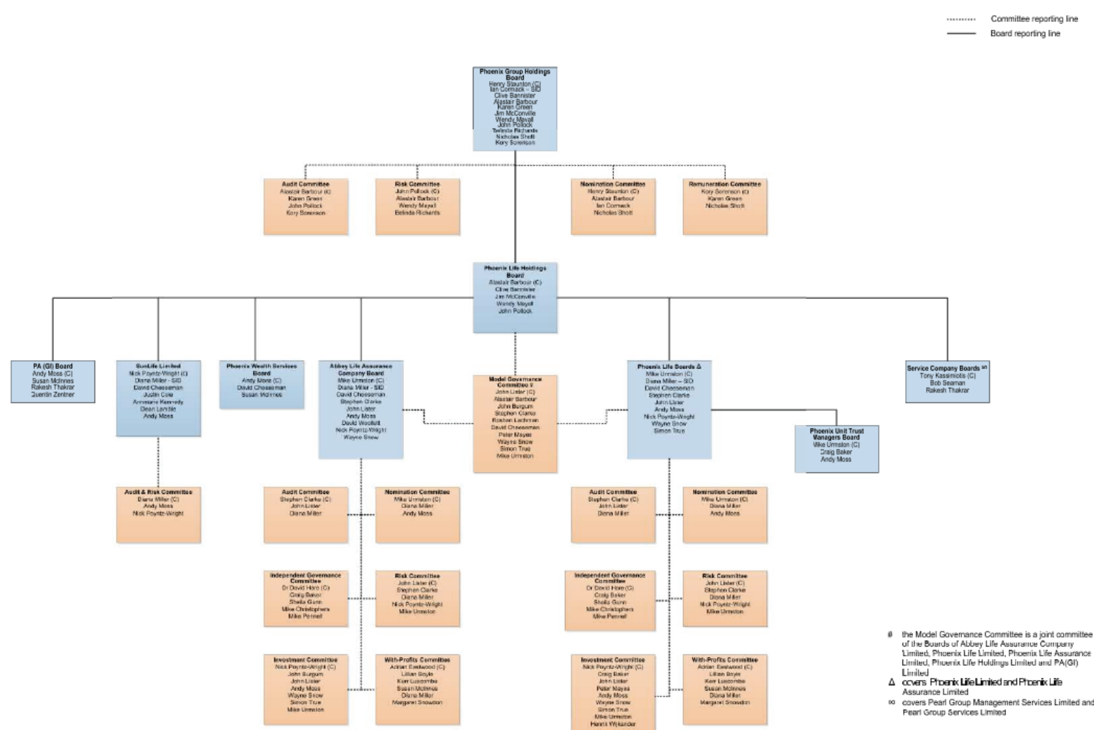
The Company has adopted a share dealing code which is based on the Market Abuse Regulation.

5.4 Corporate Governance Code

The Company recognises the importance of, and is committed to, high standards of corporate governance. The Company's compliance with the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time (the "**Governance Code**") is described on pages 48 to 55 of the Company's Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

5.5 Board and management of the Group

The company is a member of the FTSE 250 Index, having achieved a premium listing on the LSE in July 2010. The Board is committed to high standards of corporate governance and supports the Corporate Governance Code which sets standards of good practice for UK listed companies. The following diagram depicts the Group's governance structure as at 31 December 2017:



5.6 The Board

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director and eight other independent non-executive Directors (the "**Non-Executive**

Directors''). Summary biographical details of each of the Directors are described at paragraph 5.1.1 (''*Directors' biographies*'') of this Part XV (''*Additional Information*''). 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 Company: Alastair Barbour, Karen Green, Wendy Mayall, John Pollock, Belinda Richards, Nicholas Shott and Kory Sorenson. The Board has considered the criteria proposed by the 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 2018 AGM.

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 Committee under a schedule of delegated authorities approved by the Board.

The Company is, and is to remain, tax resident in the UK and the Directors will operate governance in a manner consistent with that objective.

5.7 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, Henry Staunton, 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 which appear at paragraph 5.1.1 (''*Directors' biographies*'') of this Part XV (''*Additional Information*'').

The Senior Independent Non-Executive Director, appointed by the Board, is Alastair Barbour. 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.

5.8 Effectiveness of the Board

In accordance with the Corporate Governance Code, an evaluation of the performance of the Board and that of its committees and individual Directors was undertaken during October and November 2017.

The process involved completion by the Directors of a questionnaire covering various aspects of board, committee and director effectiveness, followed by individual meetings with each Director, concluding in a Board report which was discussed by the Board in November 2017. 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 which led to the Board's recommendations to shareholders regarding re-election of directors at the 2018 AGM.

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

5.9 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 Company 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.

5.10 Board's committees

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

5.10.1 ***Audit Committee***

Alastair Barbour is the chairman of the Audit Committee. The other members are Belinda Richards, John Pollock and Karen Green.

The composition of the Audit Committee is in accordance with the requirements of the 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. The Audit Committee met seven times during 2017.

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 internal audit function. The Audit Committee receives and reviews the Annual Report & 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 Company 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 Company has adopted a Charter of Statutory Auditor Independence, which requires both the Company 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 which could create a conflict or perceived conflict. It also includes details of the procedures for the rotation of the external audit engagement partner.

5.10.2 ***Nomination Committee***

Henry Staunton is the chairman of the nomination committee of the Board (the "**Nomination Committee**"). The other members are Alastair Barbour, Nicholas Shott and Kory Sorenson. The composition of the Nomination Committee is in accordance with the requirement of the Governance Code that a majority of its members should be independent non-executive directors. The Nomination Committee is responsible for considering: (i) the size, composition and balance of the Board, the retirement and appointment of Directors; and (ii) succession planning for the Board and senior management and making recommendations to the Board on these matters. The Nomination Committee (including Ian Cormack until he resigned from the Board on 2 May 2018) met six times in 2017.

The standard process used by the Nomination Committee for Board appointments involves the use of an external search consultancy to source candidates external to Phoenix (and may in the case of executive appointments also consider internal candidates). Detailed assessments of short-listed candidates are undertaken by the search consultancy, followed by interviews with Nomination

Committee members and other Directors and the sourcing of references before the Nomination Committee recommends the appointments to the Board.

5.10.3 ***Remuneration Committee***

Kory Sorenson is the chairman of the Remuneration Committee. The other members are Karen Green and Nicholas Shott. The composition of the Remuneration Committee is in accordance with the requirements of the Governance Code that the Remuneration Committee should consist of at least three independent non-executive directors. The Remuneration Committee met six times in 2017.

The Remuneration Committee is responsible for making recommendations to the Board on the Company'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.

On 2 May 2018, PricewaterhouseCoopers were appointed to provide advice to the Remuneration Committee. FIT Remuneration Consultants provided advice to the Remuneration Committee during the course of 2017 and up to the appointment of PricewaterhouseCoopers. FIT Remuneration Consultants were, and PricewaterhouseCoopers are, independent of the Company.

5.10.4 ***Risk Committee***

John Pollock is the chairman of the Risk Committee. The other members are Alastair Barbour, Belinda Richards and Wendy Mayall. The establishment of a Risk Committee is not a requirement of the 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 Risk Committee, with a majority of independent non-executive directors, is in accordance with the final recommendations of the report by Sir David Walker, 'A review of corporate governance in UK banks and other financial industry entities'. The Risk Committee met six times in 2017.

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 aversion, the current financial situation of the Company and, drawing on assessment by the Audit Committee, the Company'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 out under the section headed "*Risk management?The Group's Risk Management Framework*" in Part IV ("*Business Overview of the Group*") of this document.

6. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

The interests of the Directors and the Senior Managers, and their immediate families, in the share capital of the Company (all of which, unless otherwise stated, are beneficial): (i) on the date of this document; (ii) as they are expected to be immediately following completion of the Rights Issue including as a percentage of the Enlarged Share Capital (assuming the issuance of 183,522,385 New Shares, full take-up by the Directors and the Senior Managers of their entitlements under the Rights Issue and that no additional shares are issued by the Company or options granted under the Employee Share Schemes between the Latest Practicable Date and completion of the Rights Issue); and (iii) as they are expected to be immediately following Completion including as a percentage of the Enlarged Share Capital (assuming the issuance of 144,106,049 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion), are as follows:

	Shares beneficially held at the date of this document		Shares beneficially held immediately following completion of the Rights Issue	
Name	**Number of Shares**	**Percentage of issued share capital(1)**	**Number of Shares**	**Percentage of Enlarged Share Capital(1)**
Directors				
Clive Bannister	748,678	0.19%	1,098,061	0.19%
Alastair Barbour	6,625	0.00%	9,717	0.00%
Karen Green	0	—	0	—
Wendy Mayall	25,000	0.01%	36,667	0.01%
James McConville	201,645	0.05%	295,746	0.05%
John Pollock	10,000	0.00%	14,667	0.00%
Belinda Richards	0	—	0	—
Nicholas Shott	5,000	0.00%	7,333	0.00%
Kory Sorenson	2,185	0.00%	3,205	0.00%
Henry Staunton	70,000	0.02%	102,667	0.02%
Senior Managers				
Stephen Jefford	13,584	0.00%	19,873	0.00%
Antonios Kassimiotis	14,362	0.00%	21,064	0.00%
Susan McInnes	4,716	0.00%	6,813	0.00%
Andy Moss	63,827	0.02%	93,485	0.02%
Rakesh Thakrar	22,902	0.01%	33,444	0.01%
Simon True	83,598	0.02%	122,610	0.02%
Quentin Zentner	35,155	0.01%	51,561	0.01%

	Shares beneficially held immediately following Completion	
Name	**Number of Shares**	**Percentage of Enlarged Share Capital(1)**
Directors		
Clive Bannister	1,098,061	0.15%
Alastair Barbour	9,717	0.00%
Karen Green	0	—
Wendy Mayall	36,667	0.01%
James McConville	295,746	0.04%
John Pollock	14,667	0.00%
Belinda Richards	0	—
Nicholas Shott	7,333	0.00%
Kory Sorenson	3,205	0.00%
Henry Staunton	102,667	0.01%

Name	Shares beneficially held immediately following Completion	
	Number of Shares	Percentage of Enlarged Share Capital[(1)]
Senior Managers		
Stephen Jefford	19,873	0.00%
Antonios Kassimiotis	21,064	0.00%
Susan McInnes	6,813	0.00%
Andy Moss	93,485	0.01%
Rakesh Thakrar	33,444	0.00%
Simon True	122,610	0.02%
Quentin Zentner	51,561	0.01%

Note:

(1) There exist 5 million outstanding redeemable Lender Warrants in the Company. Each Lender Warrant is exercisable into 1.027873 Shares of the Company at a warrant price of £14.59 per share. If they are exercised, the Company will be required to issue up to 5,139,365 additional Shares.

The Directors and the Senior Managers have the same voting rights as all other Shareholders.

Details of the Directors' and the Senior Managers' non-beneficial interests in the Shares subject to options and awards under the Employee Share Schemes are set out in paragraphs 10.7 ("*Executive Directors*") and 10.8 ("*Senior Managers*") of this Part XV ("*Additional Information*").

Other than as disclosed in paragraphs 10.7 ("*Executive Directors*") and 10.8 ("*Senior Managers*") of this Part XV ("*Additional Information*"), there are no other persons to whom any capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option.

No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the Directors.

Save as set out in this Part XV ("*Additional Information*"), it is not expected that any Director will have any interest in the share or loan capital of the Company following completion of the Rights Issue and there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

7. INTERESTS OF MAJOR SHAREHOLDERS

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules regarding its substantial Shareholders is published on a Regulatory Information Service and on the Company's website.

As at the Latest Practicable Date, insofar as the Company has been notified: (i) the following persons are interested, directly or indirectly, in 3 per cent. or more (or 5 per cent. in the case of investment managers) of the Company's issued share capital; (ii) immediately following completion of the Rights Issue, the following persons will be interested, directly or indirectly, in 3 per cent. or more (or 5 per cent. in the case of investment managers) of the Company's issued share capital based on prior notifications (assuming the issuance of 183,552,385 New Shares, full take-up by such persons of their entitlements under the Rights Issue and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and completion of the Rights Issue); and (iii) immediately following Completion, the following persons will be interested, directly or indirectly, in 3 per cent. or more (or 5 per cent. in the case of investment managers) of the Company's issued share capital based on prior notifications (assuming the issuance of 144,106,049 Acquisition Shares and that no additional shares are issued by the Company or options granted under the Employee Share Schemes are exercised between the Latest Practicable Date and Completion).

	As at the Latest Practicable Date		Immediately following completion of the Rights Issue	
Name	**Number of voting rights**	**Percentage of issued share capital(1)**	**Number of voting rights**	**Percentage of Enlarged Share Capital(1)**
Standard Life Aberdeen plc(2)	31,443,586	7.99%	46,117,259	8.00%
Prudential plc group of companies	20,632,741	5.24%	30,261,353	5.25%
BlackRock, Inc.	20,268,506	5.15%	29,727,142	5.15%
Ameriprise Financial Inc. and its group	20,065,999	5.10%	29,430,132	5.10%
Aviva plc & its subsidiaries	19,863,516	5.05%	29,133,157	5.05%

	Immediately following Completion	
Name	**Number of voting rights**	**Percentage of Enlarged Share Capital(1)**
Standard Life Aberdeen plc(3)	190,223,308	26.39%
Prudential plc group of companies	30,261,353	4.20%
BlackRock, Inc.	29,727,142	4.12%
Ameriprise Financial Inc. and its group	29,430,132	4.08%
Aviva plc & its subsidiaries	29,133,157	4.04%

Notes:

(1) There exist 5 million outstanding redeemable Lender Warrants in the Company. Each Lender Warrant is exercisable into 1.027873 Shares of the Company at a warrant price of £14.59 per share. If they are exercised, the Company will be required to issue up to 5,139,365 additional Shares.

(2) Comprising Shares held by Standard Life Aberdeen: (i) for investment purposes in the ordinary course of business in the context of managing investments (as defined in the FCA Handbook) for, or advising, clients; and (ii) as bare nominee, custodian or trustee on behalf of a customer.

(3) Comprising the Acquisition Shares and Shares held by Standard Life Aberdeen: (i) for investment purposes in the ordinary course of business in the context of managing investments (as defined in the FCA Handbook) for, or advising, clients; and (ii) as bare nominee, custodian or trustee on behalf of a customer.

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly, nor is it aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

8. DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the executive Directors as at the date of this document ("**Executive Directors**") are appointed to the Board for an unlimited term subject to a 12-month notice period. Certain Executive Directors have service agreements with PGMS under which they are appointed to the Board. Details of the service agreements are summarised below. The Non-Executive Directors, including the Chairman, entered into letters of appointment with the Company relating to their appointment to the Board, which are summarised below.

8.1 Service Agreements of the Executive Directors

Certain Executive Directors have entered into service agreements with PGMS. Details of these service agreements are set out below:

Name	Date of service agreement	Commencement date of appointment to the Board	Commencement date of employment	Expiry/ Notice terms	Basic Annual Salary (2017)
Clive Bannister (*Group Chief Executive Officer*)	7 February 2011	28 March 2011	7 February 2011	12 months	£700,000
James McConville (*Group Finance Director*)	28 May 2012	28 June 2012	6 June 2012	12 months	£440,000

Details of the share options and awards held by Mr Bannister and Mr McConville are set out in paragraph 10.7 ("*Employee Incentive Plans—Executive Directors*") of this Part XV ("*Additional Information*").

8.1.1 *Clive Bannister's Service Agreement*

Mr Bannister's service agreement will continue until terminated by either party giving 12 months' notice to the other, subject to earlier termination for cause.

Mr Bannister's service agreement provides that PGMS may terminate his employment by making a payment of a cash sum in lieu of notice equal to Mr Bannister's basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance, life insurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the "payment in lieu").

As an alternative to the payment in lieu being paid as a lump sum, the Remuneration Committee may require the payment in lieu to be made in instalments (with 50 per cent. being paid on the termination date, 25 per cent. being paid six months following the termination date, with the remaining 25 per cent. being paid nine months following the termination date). If Mr Bannister finds alternative employment or engagement during the relevant periods, the amount of any outstanding instalments will be reduced by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr Bannister using all reasonable endeavours to find suitable alternative employment and/or engagement.

On termination, Mr Bannister may be eligible for a payment under the Group's severance policy, the amount of which would be dependent on his length of service at the time of termination. Mr Bannister is entitled to be considered for an annual discretionary bonus. The amount of any bonus (which is payable by PGMS) will be determined by the Remuneration Committee. For 2016, Mr Bannister's bonus potential was 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. For the 2016 annual discretionary bonus, one third of any bonus declared was deferred under a deferred bonus share scheme into an award of Shares for a period of three years, subject to Mr Bannister's continued employment. If Mr Bannister's employment is terminated (other than by way of summary termination, in which case no bonus is payable on termination), the Remuneration Committee has the discretion to pay Mr Bannister a pro rata bonus for the year in which the employment ends, payable at the same time as for other executives participating in the same scheme.

Mr Bannister is entitled to receive a car allowance of £15,000 per annum (which is payable monthly, less any required deductions), and to be provided with private medical and health insurance and life insurance cover.

Mr Bannister is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of six months following termination of employment.

Mr Bannister is not a member of the standard life pension scheme operated for certain of the Group's London-based senior executives and management (the "**Group Personal Pension**") or any other pension funded by the Group. In lieu of any contribution by the Group to a pension, Mr Bannister receives a non-contractual monthly allowance of £10,252 which is not counted towards Mr Bannister's total remuneration for the purposes of calculating any bonus payments.

8.1.2 ***James McConville's Service Agreement***

Mr McConville's service agreement will continue until terminated by either party giving 12 months' notice to the other, subject to earlier termination for cause.

Mr McConville's service agreement provides that PGMS may terminate his employment by making a payment of a cash sum in lieu of notice equal to Mr McConville's basic salary (at the rate applicable on the date on which notice to terminate was first given by either party), plus the cost of the provision of private medical and health insurance, life insurance, and pension contributions payable for any unexpired portion of the notice period, less any required deductions (the "payment in lieu").

As an alternative to the payment in lieu being paid as a lump sum, the Remuneration Committee may require the payment in lieu to be made in instalments (with 50 per cent. being paid on the termination date, 25 per cent. being paid six months following the termination date, with the remaining 25 per cent. being paid nine months following the termination date). If Mr McConville finds alternative employment or engagement during the relevant periods, the amount of any outstanding instalments will be reduced by the amount of any basic salary or fees he receives from such employment or engagement. Payment of any such instalments would be subject to Mr McConville using all reasonable endeavours to find suitable alternative employment and/or engagement.

On termination, Mr McConville may be eligible for a payment under the Group's severance policy, the amount of which would be dependent on his length of service at the time of termination.

Mr McConville is entitled to be considered for an annual discretionary bonus. The amount of any bonus (which is payable by PGMS) will be determined by the Remuneration Committee. For 2016, Mr McConville's bonus potential was 75 per cent. of salary for on target corporate and personal performance and 150 per cent. of salary for maximum performance. Any bonus payment will be subject to clawback if bonuses have been calculated on the basis of misstated or incorrect financial information. For the 2016 annual discretionary bonus, one third of any bonus declared was deferred under a deferred bonus share scheme into an award of Shares for a period of three years, subject to Mr McConville's continued employment. If Mr McConville's employment is terminated (other than by way of summary termination, in which case no bonus is payable on termination), the Remuneration Committee has the discretion to pay Mr McConville a pro rata bonus for the year in which the employment ends, payable at the same time as for other executives participating in the same scheme.

Mr McConville is entitled to receive a car allowance of £15,000 per annum (which is payable monthly, less any required deductions), and to be provided with private medical and health insurance and life insurance cover.

Mr McConville is not a member of the Company's Group Personal Pension or any other pension funded by the Group. In lieu of any contribution by the Group to a pension, Mr McConville receives a non-contractual monthly allowance of £6,444 which is not counted towards Mr McConville's total remuneration for the purposes of calculating any bonus payments.

Mr McConville is subject to a confidentiality undertaking without limitation in time and to non-competition, non-dealing, and non-solicitation restrictive covenants for a period of six months following termination of employment.

8.2 Letters of appointment of the Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors have each entered into letters of appointment with the Company. Details of these letters of appointment are set out below:

Non-Executive Director	Date of letter of appointment	Date of joining the Board	Appointment end date	Annual fees (2017)
Alastair Barbour	30 September 2016	1 October 2013	2 May 2019	£150,000[1]
Karen Green[2]	29 June 2017	1 July 2017	1 July 2020	£52,000
Wendy Mayall	24 August 2016	1 September 2016	1 September 2019	£118,000
John Pollock	24 August 2016	1 September 2016	1 September 2019	£136,000
Belinda Richards[3]	29 June 2017	1 October 2017	1 October 2020	£26,000
Nicholas Shott	24 August 2016	1 September 2016	1 September 2019	£105,000
Kory Sorenson	9 May 2014	1 July 2014	2 May 2019	£116,000
Henry Staunton	19 August 2015	1 September 2015	1 September 2018	£325,000[4]

Notes:

(1) Alastair Barbour's fee shown for 2017 included £20,000 for serving on a subsidiary company board, £15,000 for chairing the Audit Committee and £10,000 for being a member of the Group's Model Governance Committee.

(2) Karen Green joined the Board on 1 July 2017.

(3) Belinda Richards joined the Board on 1 October 2017.

(4) On 2 May 2018, Phoenix announced that Mr Staunton will not seek a further three year term when his current term completes on 31 August 2018. He will, however, remain in office until his successor has been found, if not before 31 August 2018.

(5) Henry Staunton's annual fee for serving as Chairman of the Company is £325,000.

The fee levels for 2017 were £325,000 for the Chairman, £105,000 for the role of Non-Executive Director. During 2017, following a market review, it was felt appropriate to increase the fees of the Senior Independent Director from £5,000 to £10,000 and Chairman of the Audit, Risk and Remuneration Committee from £10,000 to £20,000. In addition, £20,000 is payable where a Non-Executive Director also serves on the board of a subsidiary company and/or (iv) £10,000 payable for service on the Solvency II Model Governance Committee.

The appointment of the Chairman and each Non-Executive Director is for an initial term of three years (and is renewable for a further three year term), unless terminated earlier by either party with notice, or by the Company for cause. The appointment of the Chairman and each Non-Executive Director is also subject to re-election by the Company in general meeting, the Articles, and continued satisfactory performance. If the Chairman or a Non-Executive Director is not re-elected by the Shareholders, their appointment terminates automatically not later than the end of the general meeting provided that the number of directors at the end of this meeting exceeds the minimum number of directors required by the Articles. If this is not the case then all the retiring directors who stood for re-appointment at the general meeting shall be deemed to have been re-appointed as directors and shall remain in office, but they may only act for the purpose of filling vacancies and convening further general meetings of the Company and performing such duties as are appropriate to maintain the Company as a going concern and to comply with the Company's legal and regulatory obligations.

The Chairman and Non-Executive Directors are not entitled to receive any compensation on termination of their appointment and no fees will be payable in respect of any unserved portion of the term of their appointment. Further, Non-Executive Directors are not entitled to participate in the Group's share, bonus or pension schemes.

The Chairman and each Non-Executive Director is entitled to reimbursement from the Company of reasonable expenses incurred in the performance of their duties. The Chairman and each Non-Executive Director is subject to a confidentiality undertaking without limitation in time. The Chairman and Non-Executive Directors may, in certain circumstances, obtain independent professional advice in the furtherance of their duties as Directors at the Company's expense.

8.3 Other service agreements or letters of appointment

Save as set out in paragraphs 8.1 and 8.2 above, there are no existing or proposed service agreements or letters of appointment between the Directors and any member of the Group.

9. DIRECTORS' AND SENIOR MANAGERS' REMUNERATION

9.1 Directors' Remuneration

Director	Fees/salary[1]	Benefits[2]	Annual incentive[3]	2017 Total
		(£)		
Clive Bannister	700,000	16,000	902,087	1,616,087
Alastair Barbour	150,000	3,055	—	153,055
Ian Cormack[4]	116,090	—	—	116,090
Karen Green[5]	52,500	—	—	52,500
Isabel Hudson[6]	38,634	—	—	38,634
Wendy Mayall	117,826	—	—	117,826
James McConville	440,000	16,000	567,026	1,023,026
John Pollock	136,410	—	—	136,410
Belinda Richards[7]	26,250	—	—	26,250
Nicholas Shott	105,000	—	—	105,000
Kory Sorenson	116,410	—	—	116,410
Henry Staunton	325,000	—	—	325,000
David Woods[8]	53,291	1,832	—	55,123

Notes:

(1) Where appropriate, this figure is pro rata to the period the individual was a Director.

(2) Benefits include car allowance, private medical insurance and life insurance, and reimbursements of expenses for travel and accommodation costs, as applicable.

(3) Annual incentive amounts are presented inclusive of any amounts which must be deferred in shares for three years (i.e., one-third of the 2017 incentive award). Of the amounts presented above, £360,834 of Clive Bannister's incentive payment is subject to 3-year deferral delivered in shares, and £226,810 of James McConville's incentive payment is subject to similar deferral.

(4) Ian Cormack resigned from the Board on 2 May 2018.

(5) Karen Green joined the Board on 1 July 2017.

(6) Isabel Hudson resigned from the Board on 11 May 2017.

(7) Belinda Richards joined the Board on 1 October 2017.

(8) David Woods resigned from the Board on 11 May 2017.

9.2 Senior Managers' Remuneration

The aggregate amount of remuneration paid by the Company or its subsidiaries to the Senior Managers in the year ended 31 December 2017 was approximately £2.94 million. This amount comprises salary, annual bonus, car allowance, pension contributions and private medical insurance. In addition to the amount above, each Senior Manager is entitled to death in service benefit of four times base salary.

10. EMPLOYEE INCENTIVE PLANS

The Group's Employee Share Schemes have been introduced for the purpose of incentivising and motivating the Company's employees by reference to the Company's Shares. The Sharesave Scheme and the SIP are intended to give participants favourable tax treatment on the acquisition of the Company's shares under those plans. The DBSS has been introduced to facilitate the bonus deferral of all or part of any annual bonuses earned by members of the Executive Committee and those Senior Managers who receive a conditional share award (which entitles a participant to acquire or receive shares for no or only a nominal payment), a share option to acquire shares at a nil or nominal exercise price, an allocation of shares which may be forfeited in certain circumstances, or any combination of them (each an "**LTIP Award**") as part of their remuneration.

Options have been granted annually since 2010 to employees under the Sharesave Scheme. The SIP was launched in 2012 to all eligible employees with the first purchase of shares in May 2012. Details of the options and awards granted to Senior Managers under the LTIP, the Sharesave Scheme and SIP are set out in paragraphs 10.7 ("*Employee Incentive Plans—Executive Directors*") and 10.8 ("*Employee Incentive Plans—Senior Managers*") of this Part XV ("*Additional Information*").

10.1 The Long-Term Incentive Plan

10.1.1 ***Overview***

The LTIP was adopted on 2 July 2009 by the Board, approved by the Company's shareholders with effect from 2 September 2009 and subsequently amended by the Remuneration Committee on 30 January 2013 and 21 January 2015. An eligible employee may be granted an LTIP Award.

The LTIP provides that, in countries where an award or option involving real shares or an allocation of forfeitable shares is not appropriate or feasible for legal, regulatory or tax reasons, a phantom award may be used. This delivers a cash payment equal to the net benefit a participant would have derived from the vesting or exercise of an LTIP Award. In certain circumstances, share based awards may be satisfied (in whole or in part) in cash.

10.1.2 ***Eligibility***

All of the Company's employees, including its Executive Directors and those of its subsidiaries are eligible to participate in the LTIP at the discretion of the Remuneration Committee.

10.1.3 ***Grant of LTIP Awards***

Subject to any applicable dealing restrictions, the Remuneration Committee may grant LTIP Awards under the LTIP at any time while the Company is listed on the Official List and admitted to trading on the LSE's main market for listed securities. Grants may be made during the period of 42 days commencing on (i) the announcement of the Company's results for any period, or (ii) at such other time as the Remuneration Committee considers that exceptional circumstances exist which justify a grant.

No payment is required for the grant of an LTIP Award.

10.1.4 ***Individual limits***

The Remuneration Committee determines the appropriate level of grant for participants. However, the maximum number of shares under LTIP Awards granted to a participant in any twelve month period will generally not have an aggregate market value, as measured at the date of grant, exceeding 300 per cent. of the participant's base salary. In exceptional circumstances, such as recruitment or retention, a limit of up to 400 per cent. of annual base salary will apply. Market value is based on the average of the closing price of a share as derived from the LSE Daily Official List for the three Dealing Days preceding the date of grant. When determining the size of any individual grant, the Remuneration Committee, as far as possible, takes into account the likely impact of dividend enhancement, as described below. Where a participant is required to bear the costs of his employer's National Insurance Contributions on his LTIP Award, the number of shares under his award may, at the discretion of the Remuneration Committee, be increased to reflect this, subject to the maximum limit referred to above.

10.1.5 ***Dividend enhancement***

The number of shares which vest under an LTIP Award is increased to reflect the value of dividends paid on shares during the vesting period.

10.1.6 ***Performance conditions***

LTIP Awards are subject to performance conditions imposed by the Remuneration Committee at the date of grant. Performance conditions are generally measured over a period of three years. The extent to which the performance conditions are satisfied will determine how many (if any) of the shares under an LTIP Award a participant is entitled to acquire or in the case of an allocation of forfeitable shares, to retain. Performance conditions are not capable of being retested, so that any proportion of an LTIP Award which does not vest on the normal vesting date will lapse or be forfeited (as applicable).

The specific performance conditions applicable to a grant of an LTIP Award are determined by the Remuneration Committee at the date of grant. However, as a general matter, performance conditions will be demanding and stretching and, where appropriate, performance may be measured against a defined comparator group. Vesting levels are determined on a sliding scale by reference to achievement of the performance conditions. The Remuneration Committee may determine that an LTIP Award should be subject to multiple conditions or that an LTIP Award should be sub divided and that each part be subject to a different condition. The Remuneration Committee is required to give due regard to best practice and any applicable codes published by regulators when setting performance conditions.

The Remuneration Committee may set different performance conditions for LTIP Awards granted in different years provided that, in the reasonable opinion of the Remuneration Committee, the targets are not materially less challenging in any year.

The Remuneration Committee may vary the performance conditions applying to existing LTIP Awards if an event occurs which results in the conditions no longer being a fair measure of performance provided that, in the reasonable opinion of the Remuneration Committee, the new conditions are not materially less challenging than the original conditions would have been but for the event in question.

10.1.7 ***Release or exercise of LTIP Awards***

Subject to satisfaction of the applicable performance conditions the vesting period for LTIP Awards is three years after the date of their grant. For LTIP Awards made to executive directors from 2015 onwards, a holding period applies so that any LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Vested share awards are released to participants automatically within 30 days of the date the shares vest. Vested share options are exercisable up until the tenth anniversary of the date of grant, after which they lapse. Vested forfeitable shares will cease to be subject to the risk of forfeiture on vesting.

LTIP Awards normally only vest if the participant remains in employment with the Company or any of its subsidiaries. If a participant leaves the Company's employment during the vesting period, vested and unvested parts of the LTIP Awards will normally lapse or be forfeited. However, if the reason for leaving is death, injury, disability, ill health, redundancy or any other reason at the Remuneration Committee's discretion, LTIP Awards will not lapse but will vest on the normal vesting date, to the extent that the Remuneration Committee determines that the performance conditions have been satisfied over the full vesting period but subject to a time pro rating reduction (based on the total number of complete months from the date of grant to the cessation of employment relative to a period of 36 months). Alternatively, the Remuneration Committee may, in its absolute discretion, determine that LTIP Awards should vest on the date of cessation of employment, subject to the satisfaction of the performance conditions at that date and to a time pro rating reduction. In either circumstance, the Remuneration Committee may determine that the pro rating reduction should not apply at all or should apply to a lesser extent. In the event of a participant's death, an LTIP Award will vest and the shares may be released or acquired by his or her personal representatives within twelve months of such event.

10.1.8 ***Corporate events***

In the event of a change of control, scheme of arrangement or voluntary winding up, unvested LTIP Awards will vest to the extent that the performance conditions have been satisfied at the time of the relevant event but subject to a time pro rating reduction (based on the number of complete months from the date of grant to the date of the relevant event relative to a period of 36 months). The Remuneration Committee may in its discretion disapply the application of time pro rating or determine that pro rating should apply to a lesser extent. The Remuneration Committee may also allow or require LTIP Awards to be exchanged for equivalent awards over shares in the acquiring company. In the event of an internal reorganisation which involves the creation of a new holding company, LTIP Awards will not vest and will be replaced by equivalent awards over shares in the new holding company.

If a demerger, special dividend or other similar event or transaction occurs which would affect the market value of a share to a material extent, then the Remuneration Committee may determine that LTIP Awards will vest as on a change of control.

10.1.9 ***Variation of share capital***

In the event of any variation of share capital or reserves of the Company (including, without limitation, by way of capitalisation issue, rights issue, sub division, consolidation or reduction) or the implementation by the Company of a demerger or payment of a super dividend which would otherwise materially affect the value of a LTIP Award) the Remuneration Committee may adjust the number of Shares subject to LTIP Awards (including vested shares in respect of which any LTIP Award has been realised but Shares have not been transferred to the participant) to such extent and in such manner as it thinks fit.

10.2 The Sharesave Scheme

10.2.1 *Overview*

The Sharesave Scheme was adopted on 2 July 2009 by the Board, approved by the Company's shareholders with effect from 2 September 2009 and subsequently amended by the Remuneration Committee on 21 January 2015. The Sharesave Scheme enables tax-favoured options to be granted over shares to UK resident employees. The Sharesave Scheme was approved by HMRC on 24 December 2009. As at the Latest Practicable Date, there were 667 employees currently participating in the Sharesave Scheme who have options over a total of 1,538,713 Shares.

10.2.2 *Eligibility*

All of the Company's employees and full-time Directors who are UK resident taxpayers are eligible to participate provided that the Remuneration Committee may require any such person to have completed a qualifying period of employment of up to five years. The Remuneration Committee may allow other employees to participate.

10.2.3 *Grant of options*

Options can only be granted to employees who enter into an approved savings contract with a designated bank or building society, under which monthly savings are made as deductions from pay. The participant must select the date on which his or her savings will be repaid to him (the maturity date) which may be three or five years after the start of the contract provided that the Board may choose to offer only one of those repayment dates.

Invitations to participate in the Sharesave Scheme may be issued only during the period of 42 days commencing on any of the following: (i) the day following the announcement of the Company's results for any financial period; (ii) any changes to the legislation affecting savings-related share option schemes being announced, made or coming into effect; or (iii) a resolution by the Directors that exceptional circumstances have arisen which justify the grant of options.

10.2.4 *Individual limits*

A participant's aggregate monthly savings under all savings contracts linked to options granted under any share save scheme must not exceed the statutory maximum (currently £500). The Remuneration Committee can set a lower limit in relation to any particular grant.

The number of shares over which an option is granted is such that the total exercise price payable will correspond to the proceeds on maturity of the related savings contract (i.e., the total savings plus accrued interest).

10.2.5 *Exercise price*

The price per share payable upon the exercise of an option must not be less than 80 per cent. of the market value of a share on a date which is determined by the Board (but which may be earlier than 30 days prior to the date of grant or 42 days if applications for options are scaled down where this is an oversubscription for options). If the option is granted over Shares which are admitted to trading on the LSE, market value will be the average of the middle market quotations of such a share on the relevant exchange for the three consecutive Dealing Days immediately prior to the applicable valuation date. If the option relates to new issue shares, the exercise price must not be less than the nominal value of a share.

10.2.6 *Exercise of options*

Options are normally only exercisable during the six month period following the maturity date of the relevant savings contract. Earlier exercise is permitted if the participant leaves employment in certain specified circumstances, otherwise options will lapse on the cessation of employment.

10.2.7 *Leaving employment*

Options lapse on cessation of employment with the Company or any subsidiary of the Company which has been nominated by the Board as a participating company for the purposes of the Sharesave Scheme unless the participant ceases employment for a specified reason. The participant may exercise options within six months of ceasing employment by reason of injury or disability, redundancy, retirement, the sale of the business or subsidiary company in which the participant is employed or, if the option has been held for at least three years, ceasing employment for any other reason. In respect of options granted prior to 17 July 2013, a participant may exercise his or her options within six months of reaching age 60 even though he or she does not leave employment. The personal representatives of a participant who dies may exercise his or her options within 12 months

of the date of his or her death or if he or she dies within six months after the maturity of the relevant savings contract, 12 months from that maturity.

10.2.8 ***Corporate events***

In the event of a change of control of the Company as a result of a general offer, or if a court approves a compromise or scheme of arrangement of the Company, or if there is a winding-up, options will become exercisable within limited specified periods of such events to the extent that they are exercisable with accrued savings. The Company will notify participants of the relevant corporate event so as to enable them to exercise their options or take other action. Alternatively, participants may be offered equivalent new options over shares in a new holding company in exchange for their existing options.

10.2.9 ***Variation of share capital***

In the event of any variation of share capital or reserves of the Company (including, without limitation, by way of capitalisation issue, rights issue, sub-division, consolidation or reduction), the number of Shares under option and/or the exercise price may be adjusted as the Board (or a duly authorised committee thereof) may determine, provided that: (i) HMRC gives prior approval; (ii) in respect of options under which Shares are to be transferred, the person holding the Shares to which the options relate has been given prior notification and gives their prior approval; (iii) the adjustment does not result in an increase to the aggregate exercise price of any option; and (iv) the adjustment does not have the effect of reducing the exercise price to less than the nominal value of a Share.

10.3 The Share Incentive Plan

10.3.1 ***Overview***

The SIP was adopted on 2 July 2009 by the Board, approved by the Company's shareholders with effect from 2 September 2009 and subsequently amended with effect from 17 July 2013. The SIP received HMRC approval on 11 January 2012. The acquisition of Shares under the SIP may attract tax-favoured treatment for UK resident employees.

10.3.2 ***Eligibility***

All of the Company's employees who are UK resident taxpayers would be eligible to participate in the SIP provided they satisfy any minimum service requirement that is imposed. The Company may set a minimum service requirement but that requirement cannot exceed 18 months' service. All eligible employees must be invited to participate on similar terms.

10.3.3 ***Awards***

In summary, the SIP allows participants to acquire shares under the terms of three types of awards: (i) an award of free shares ("**Free Shares**"); (ii) the opportunity for employees to purchase shares with deductions from their pre-tax salary ("**Partnership Shares**"); and (iii) an award of free shares ("**Matching Shares**") to those employees who have purchased Partnership Shares.

These elements may be operated individually or in conjunction with each other except that Matching Shares may only be awarded in conjunction with Partnership Shares. In addition, employees can be required or allowed to reinvest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further shares ("**Dividend Shares**"). Any shares acquired under the SIP must be held in a special trust on participants' behalf for a minimum period of time.

10.3.4 ***Free Shares***

The Company may provide Free Shares to eligible employees up to a maximum value set from time to time by HMRC. The current maximum value is £3,600 per employee per annum. If the Company wishes, the award of Free Shares can be based on the achievement of personal, team, divisional or corporate performance targets which must be notified to all relevant employees. Otherwise, Free Shares must be awarded to eligible employees on the same terms subject only to variation according to an employee's remuneration, length of service or hours worked.

10.3.5 ***Partnership Shares***

The Company may provide eligible employees with the opportunity to acquire Partnership Shares from their pre-tax salary up to a maximum value set from time to time by HMRC, currently the lesser of £1,800 per annum or 10 per cent. of salary. Salary for these purposes includes base salary and any bonus. The Company may set a minimum monthly deduction that may not be greater than £10. Shares are acquired on behalf of employees within 30 days after each deduction at a price equal to the market value of such shares on the date they are acquired. Alternatively, deductions can be

accumulated for up to 12 months. In this case, shares are acquired on behalf of employees within 30 days of the end of the accumulation period, by reference to the market value of the shares on either the date the accumulation period commenced or the date the shares are acquired.

10.3.6 ***Matching Shares***

The Company may award Matching Shares to those eligible employees who have purchased Partnership Shares. The Matching Shares must be offered on the same basis to all employees in such ratio as the Company may determine, but that ratio may not exceed two Matching Shares for every one Partnership Share purchased.

10.3.7 ***Dividend Shares***

The Company may either give eligible employees the opportunity, or may require them, to re-invest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further shares.

10.3.8 ***Holding period***

Free Shares and Matching Shares must generally be held in the SIP trust for a minimum period set by the Company, which may not be less than three years nor more than five years from the date on which such shares are allocated to employees. Partnership Shares are not subject to any specific holding period. Dividend Shares must generally be held in the SIP trust for a minimum period of not less than three years.

10.3.9 ***Leavers***

The Company can provide for Free Shares and Matching Shares to be forfeited if employees cease employment with the Group within a period of up to three years from the date on which the shares were allocated other than in specified circumstances including death, redundancy, disability, injury, retirement, or the sale of the business or subsidiary in which the participant is employed.

Employees may withdraw their Partnership Shares from the SIP trust at any time. However, the Company may stipulate that Matching Shares will be subject to forfeiture if the corresponding Partnership Shares are withdrawn within a specified period (not exceeding three years) of their purchase. The Company may also stipulate that Free Shares and Matching Shares may be forfeited if an employee withdraws them from the SIP trust within a specified period (not exceeding three years) from the date they were allocated. Forfeiture will not apply if the shares are withdrawn from the SIP as a result of a change of control of the Group.

10.3.10 ***Corporate events***

In the event of any reconstruction or takeover of the Company, employees may direct the trustee of the SIP how to act in respect of any shares held on their behalf.

10.3.11 ***Capital raisings***

Whenever rights to acquire shares or other rights of any nature are granted by the Company in respect of its Shares held in the SIP on behalf of participants, participants may instruct the trustee to take up all or part of the rights, to sell the rights and/or to allow all or part of the rights to lapse.

10.4 The Deferred Bonus Share Scheme

10.4.1 ***Overview***

The DBSS was adopted by the Remuneration Committee on 1 February 2010 and subsequently amended by the Remuneration Committee on 12 January 2015, 13 March 2015, 18 August 2015 and 23 August 2016. The DBSS allows all or part of an employee's annual bonus to be awarded on a gross of tax basis in the form of a deferred share award, which will vest subject to the employee remaining in employment during a fixed vesting period. The Company may not issue new shares to satisfy deferred share awards. Instead, it may provide monies to an employee benefit trust to enable the trust to purchase existing shares in the market to be used to satisfy the awards.

10.4.2 ***Grant and vesting of deferred share awards***

Participants will be granted an award of shares having a market value equal to the gross of tax element of the annual bonus that is to be deferred. The deferred award will normally vest and become exercisable at the end of a vesting period specified by the Remuneration Committee at the date of grant (which may not be less than three years or longer than five years) and is generally anticipated to be three years subject to the participant's continued employment. The participant may exercise the deferred award during the six months after the end of the vesting period.

10.4.3 ***Clawback***

If it is determined that a bonus to which a deferred award relates was calculated on the basis of misstated or incorrect financial information, that deferred award, to the extent that it is unvested, will lapse (unless the Remuneration Committee decides otherwise) in respect of such number of shares as have a value equal to the difference between the excess bonus and the bonus that would have been calculated on the basis of the restated financial information.

10.4.4 ***Cessation of employment***

If a participant resigns or gives notice of his resignation or is dismissed summarily before the vesting date, his entitlement to the deferred share award will automatically lapse unless the Remuneration Committee, in its discretion, determines otherwise. If the Remuneration Committee exercises its discretion in favour of such a leaver, or if a participant's employment ceases for any other reason, the participant's deferred award will be capable of exercise during the six months following his cessation of employment (or 12 months in the event of his death). If a participant ceases employment by reason of retirement with the consent of the Company, he may exercise a deferred award during the six months following the original vesting date.

10.4.5 ***Corporate events***

In the event of a takeover, scheme of arrangement or winding-up of the Company (not being an internal reorganisation) deferred share awards will vest and be exercisable for a limited period after the change of control. An internal reorganisation to create a new holding company will not result in the accelerated vesting of deferred share awards; they will be exchanged for equivalent awards over shares in the holding company and vest at the normal vesting date.

10.4.6 ***Variation of share capital***

In the event of any variation of the share capital of the Company, a demerger involving the Company or a subsidiary of the Company, or the payment of a capital or other dividend or distribution which is of an unusual nature (and which, in the opinion of the Remuneration Committee, has a material impact on the value of an Share), the Remuneration Committee may adjust, as it considers appropriate: (i) the number of Shares that may be acquired on the exercise of a deferred share award; (ii) the price payable for the Shares; and (iii) the number of Shares which may be allotted or transferred pursuant to an award (where an award has been exercised or released but no Shares have been allotted or transferred pursuant to that exercise).

10.5 Terms Applicable to all of the Employee Share Schemes

The terms below apply to all the Employee Share Schemes.

10.5.1 ***Time limit for grants of options and awards***

Options and awards may not be granted more than ten years after the date the LTIP, Sharesave Scheme and SIP were adopted by the Shareholders. The DBSS does not have an automatic termination date.

10.5.2 ***Satisfaction of options and awards***

Options and awards (other than deferred awards granted under the DBSS) may be satisfied by the issue of new shares or the transfer of existing shares.

10.5.3 ***Overall plan limits***

The Company may not grant options or awards under any of the Employee Share Schemes or any other share plans adopted by the Company or any other company under its control if such grant would cause the aggregate number of shares issued or issuable pursuant to options or awards granted in the preceding ten years under those plans to exceed 10 per cent. of the Company's issued ordinary share capital at the proposed date of grant.

In addition, the Company may not grant options or awards under the LTIP or any other discretionary share plan adopted by the Company or any other company under its control if such grant would cause the aggregate number of shares issued or issuable pursuant to options or awards granted in the preceding ten years under those plans to exceed 5 per cent. of the Company's issued ordinary share capital at the proposed date of grant.

If options and awards are to be satisfied by a transfer of existing shares, the percentage limits stated above will not apply.

Any options or awards granted, or shares allocated through trust arrangements, under the Employee Share Schemes before the premium listing which occurred on 5 July 2010, are not taken into account for the purposes of calculating the above limits.

10.5.4 ***Other features of options and awards***

Options and awards are not transferable, except on death. Options and awards are not pensionable. Unless the Remuneration Committee determines otherwise, awards and options will lapse if a participant is declared bankrupt.

10.5.5 ***Rights attaching to shares***

Any shares allotted when an option is exercised or an award vests will rank *pari passu* with shares then in issue (except for rights arising by reference to a Record Date prior to their allotment). At any time when the shares are admitted to listing on a recognised stock exchange, application will be made for any newly issued shares to be admitted to such listing and admitted to trading on the relevant exchange.

10.5.6 ***Alterations to the Employee Share Schemes***

The Remuneration Committee may amend the Employee Share Schemes in any respect, provided that (save for the DBSS) the prior approval of shareholders is obtained for any amendment to the advantage of participants to the following provisions: (i) the individuals who may participate in the plan; (ii) the limits on the number of shares available under the plan; (iii) the maximum entitlement of participants; and (iv) the basis for determining a participant's entitlement and the adjustment of options or awards on a variation of the Company's share capital.

The requirement to obtain the prior approval of shareholders does not apply to any amendment to the DBSS nor to any minor amendment of the Employee Share Schemes made: (i) to benefit the administration of the Employee Share Schemes; (ii) to take account of a change in legislation; (iii) or to obtain or maintain favourable tax, exchange control or regulatory treatment for eligible employees, participants or for any company in the Group. Shareholder approval is also not required for any amendment to any performance conditions, provided that any such amendment is made on the basis referred to above under paragraph 10.1.6 ("*The Long-Term Incentive Plan—Performance conditions*") of this Part XV ("*Additional Information*").

Amendments that would adversely affect subsisting rights are subject to specified limitations.

The Company may modify or extend any of the Employee Share Schemes to apply in different jurisdictions, having regard to securities, exchange control and tax laws in such jurisdictions. Any such amendment must conform to the basic principles of the relevant plan and cannot enlarge the individual or overall limits applicable to that share plan.

10.6 Impact of the Rights Issue

The Board intends to make such adjustments to the number of shares subject to share options and awards and the exercise price (if any) of such options as may be appropriate to take account of the Rights Issue in accordance with the rules of the Employee Share Schemes (subject, where appropriate, to HMRC approval). The Remuneration Committee may make such adjustments to the performance conditions which apply to outstanding awards under the LTIP as may be appropriate. Participants in the Employee Share Schemes will be contacted separately with further information on how their share options and/or awards will be affected by the Rights Issue. Participants in the SIP will be eligible to participate in the Rights Issue by instructing the trustee which administers the SIP. Participants in the SIP will receive a separate communication with information on what steps they may take.

10.7 Executive Directors

As at the date of this document, the interests of Clive Bannister and James McConville under the long-term share-based arrangements were as follows:

10.7.1 ***2015 LTIP Awards***

Details of the nil cost options granted in 2015 under the LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2015 LTIP Award	2015 LTIP Awards Normal Vesting Date
Clive Bannister	198,931	28 September 2018
James McConville	125,041	28 September 2018

The 2015 LTIP Awards were subject to two performance conditions. The performance condition attached to the first 40 per cent. of the shares comprised in an LTIP Award will be based on embedded value growth targets measured over the three financial years from 1 January 2015 to 31 December 2017. 25 per cent. of these shares will vest if embedded value as calculated under the LTIP rules increases over the period by the relevant risk free rate plus 4 per cent., rising on a straight line basis to full vesting of this tranche of the LTIP Award if embedded value increases by the relevant risk free rate plus 6 per cent. The performance condition attaching to the 40 per cent. of the shares comprised in the LTIP Award were based on cash generation targets measured over the three financial years of the Company starting 1 January 2015. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £841 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Awards if cash of £991 million is generated.

The performance condition attaching to the remaining 20 per cent. of the shares in the LTIP Award will be based on total shareholder return ("**TSR**") based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

10.7.2 ***2016 LTIP Awards***

Details of the nil cost options granted in 2016 under the LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2016 LTIP Award	2016 LTIP Awards Normal Vesting Date
Clive Bannister	187,634	2 June 2019
James McConville	117,940	2 June 2019

The 2016 LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the LTIP Award were based on cash generation targets measured over the three financial years of the Company starting 1 January 2016. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £949 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,049 million is generated.

The performance condition attaching to the remaining 50 per cent. of the shares in the LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

10.7.3 ***2017 LTIP Awards***

Details of the nil cost options granted in 2017 under the LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2017 LTIP Award	**2017 LTIP Awards Normal Vesting Date**
Clive Bannister	177,627	24 March 2020
James McConville..	111,651	24 March 2020

The 2017 LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the LTIP Award will be based on cash generation targets measured over the three financial years of the Company starting 1 January 2017. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,372 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,572 million is generated.

The performance condition attaching to the remaining 50 per cent. of the shares in the LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

10.7.4 ***2018 LTIP Awards***

Details of the nil cost options granted in 2018 under the LTIP to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2018 LTIP Award	**2018 LTIP Awards Normal Vesting Date**
Clive Bannister	178,913	21 March 2021
James McConville..	112,460	21 March 2021

The 2018 LTIP Awards are subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the LTIP Award is based on cash generation targets measured over the three financial years of the Company starting 1 January 2018. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,474 million is generated over the period (with none vesting if below £1,474 million), rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,674 million is generated. 35 per cent. of the shares comprised in the LTIP is based on Return on Adjusted Shareholder Solvency II Own Funds, whereby a return of 4 per cent. above the risk free rate will start to vest on a straight line basis to full vesting of this tranche of an LTIP Award if a risk free rate of 6 per cent. is reached.

The performance condition attaching to the remaining 25 per cent. of the shares in the LTIP Award will be based on TSR with zero vesting at the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

Once the performance conditions have been measured, the 2015, 2016, 2017 and 2018 LTIP Awards will only vest if the Remuneration Committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the Remuneration Committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

LTIP Awards made to Executive Committee members from 2015 are subject to a holding period so that any LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award.

10.7.5 ***Deferred Bonus Share Scheme***

Details of the nil cost options granted on 2 June 2016, 24 March 2017 and 21 March 2018 under the DBSS to Mr Bannister and Mr McConville are set out in the table below.

	Number of Shares under 2016 DBSS Award	2016 DBSS Awards Normal Vesting Date	Number of Shares under 2017 DBSS Award	2017 DBSS Awards Normal Vesting Date	Number of Shares under 2018 DBSS Award	2018 DBSS Awards Normal Vesting Date
Clive Bannister.......	38,464	24 March 2019	37,363	20 March 2020	46,112	15 March 2021
James McConville..	25,283	24 March 2019	23,485	20 March 2020	28,985	15 March 2021

The DBSS awards are subject to no performance conditions other than remaining in employment within the Group up to the date of vesting.

10.8 Senior Managers

10.8.1 ***2015 LTIP Awards***

Details of the nil cost options granted in 2015 under the LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2015 LTIP Awards	2015 LTIP Awards Normal Vesting Date
Stephen Jefford...	—	—
Antonios Kassimiotis	63,941	28 September 2018
Susan McInnes	17,050	28 September 2018
Andrew Moss	67,139	28 September 2018
Rakesh Thakrar...	22,379	28 September 2018
Simon True...	68,817	28 September 2018
Quentin Zentner	46,890	28 September 2018

The 2015 LTIP Awards were subject to two performance conditions. The performance condition attached to the first 40 per cent. of the shares comprised in an LTIP Award will be based on embedded value growth targets measured over the three financial years from 1 January 2015 to 31 December 2017. 25 per cent. of these shares will vest if embedded value as calculated under the LTIP rules increases over the period by the relevant risk free rate plus 4 per cent., rising on a straight line basis to full vesting of this tranche of the LTIP Award if embedded value increases by the relevant risk free rate plus 6 per cent. The performance condition attaching to the 40 per cent. of the shares comprised in the LTIP Award were based on cash generation targets measured over the three financial years of the Company starting 1 January 2015. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £841 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Awards if cash of £991 million is generated.

The performance condition attaching to the remaining 20 per cent. of the shares in the LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

10.8.2 ***2016 LTIP Awards***

Details of the nil cost options granted in 2016 under the LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2016 LTIP Awards	2016 LTIP Awards Normal Vesting Date
Stephen Jefford	28,186	25 October 2019
Antonios Kassimiotis	60,311	2 June 2019
Susan McInnes	16,082	2 June 2019
Andrew Moss	69,357	2 June 2019
Rakesh Thakrar	21,108	2 June 2019
Simon True	64,909	2 June 2019
Quentin Zentner	46,238	2 June 2019

The 2016 LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the LTIP Award were based on cash generation targets measured over the three financial years of the Company starting 1 January 2016. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £949 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,049 million is generated.

The performance condition attaching to the remaining 50 per cent. of the shares in the LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

10.8.3 ***2017 LTIP Awards***

Details of the nil cost options granted in 2017 under the LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2017 LTIP Awards	2017 LTIP Awards Normal Vesting Date
Stephen Jefford	26,644	24 March 2020
Antonios Kassimiotis	57,094	24 March 2020
Susan McInnes	16,176	24 March 2020
Andrew Moss	71,368	24 March 2020
Rakesh Thakrar	20,432	24 March 2020
Simon True	62,830	24 March 2020
Quentin Zentner	45,675	24 March 2020

The 2017 LTIP Awards were subject to two performance conditions. The performance condition attaching to the 50 per cent. of the shares comprised in the LTIP Award will be based on cash generation targets measured over the three financial years of the Company starting 1 January 2017. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,372 million is generated over the period, rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,572 million is generated.

The performance condition attaching to the remaining 50 per cent. of the shares in the LTIP Award will be based on TSR based on the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

10.8.4 ***2018 LTIP Awards***

Details of the nil cost options granted in 2017 under the LTIP to the following Senior Managers are set out in the table below.

	Number of Shares under 2018 LTIP Awards	2018 LTIP Awards Normal Vesting Date
Stephen Jefford	29,392	21 March 2021
Antonios Kassimiotis	57,507	21 March 2021
Susan McInnes	28,115	21 March 2021
Andrew Moss	71,884	21 March 2021
Rakesh Thakrar	31,948	21 March 2021
Simon True	67,092	21 March 2021
Quentin Zentner	49,840	21 March 2021

The 2018 LTIP Awards are subject to three performance conditions. The performance condition attaching to the 40 per cent. of the shares comprised in the LTIP Award is based on cash generation targets measured over the three financial years of the Company starting 1 January 2018. 25 per cent. of the shares comprised in this tranche of an award will vest if cash of £1,474 million is generated over the period (with none vesting if below £1,474 million), rising on a straight line basis to full vesting of this tranche of an LTIP Award if cash of £1,674 million is generated. 35 per cent. of the shares comprised in the LTIP is based on Return on Adjusted Shareholder Solvency II Own Funds, whereby a return of 4 per cent. above the risk free rate will start to vest on a straight line basis to full vesting of this tranche of an LTIP Award if a risk free rate of 6 per cent. is reached.

The performance condition attaching to the remaining 25 per cent. of the shares in the LTIP Award will be based on TSR with zero vesting at the median performance against the constituents of the FTSE 250 (excluding investment trusts) rising on a pro rata basis until full vesting for upper quartile performance. In addition, the Remuneration Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.

Once the performance conditions have been measured, the 2015, 2016, 2017 and 2018 LTIP Awards will only vest if the Remuneration Committee is also satisfied that the levels of bank debt and associated interest costs have remained within parameters acceptable to the Remuneration Committee over the vesting period and that the Company has made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital restructuring.

LTIP Awards made to Executive Committee members from 2015 are subject to a holding period so that any LTIP Awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award.

10.8.5 ***Deferred Bonus Share Scheme***

Details of the nil cost options granted in 2016, 2017 and 2018 under the DBSS to the following Senior Managers are set out in the table below.

	Number of Shares under 2016 DBSS Award	2016 DBSS Awards Normal Vesting Date	Number of Shares under 2017 DBSS Award	2017 DBSS Awards Normal Vesting Date
Stephen Jefford	—	—	2,224	20 March 2020
Antonios Kassimiotis	10,184	24 March 2019	10,736	20 March 2020
Susan McInnes	4,631	24 March 2019	4,851	20 March 2020
Andrew Moss	16,930	24 March 2019	18,493	20 March 2020
Rakesh Thakrar	6,079	24 March 2019	6,367	20 March 2020
Simon True	12,395	24 March 2019	13,655	20 March 2020
Quentin Zentner	7,063	24 March 2019	7,763	20 March 2020

	Number of Shares under 2018 DBSS Award	2018 DBSS Awards Normal Vesting Date
Stephen Jefford	8,593	15 March 2021
Antonios Kassimiotis	11,419	15 March 2021
Susan McInnes	5,174	15 March 2021
Andrew Moss	25,715	15 March 2021
Rakesh Thakrar	6,172	15 March 2021
Simon True	18,985	15 March 2021
Quentin Zentner	10,396	15 March 2021

The vesting of DBSS awards are subject to no performance conditions other than remaining in employment within the Group up to the date of vesting.

10.8.6 ***Sharesave Scheme***

The Company invites on an annual basis all employees to participate in the Group's Sharesave Scheme. Details of the share options granted under the Sharesave Scheme to Senior Managers are set out in the table below:

	Number of Shares under the 2014 Sharesave Grant	Normal Exercise Date	Number of Shares under the 2016 Sharesave Grant	Normal Exercise Date	Number of Shares under the 2017 Sharesave Grant	Normal Exercise Date
Stephen Jefford	—	—	—	—	2,852	1 June 2020
Susan McInnes	—	—	1,407	1 June 2019	1,426	1 June 2020
Andrew Moss	—	—	1,407	1 June 2019	1,426	1 June 2020
Rakesh Thakrar	2,920	1 June 2019	—	—	1,426	1 June 2020
Simon True	—	—	—	—	2,852	1 June 2020

10.8.7 ***Share Incentive Plan***

The SIP was launched on 14 March 2012, with shares being acquired on a monthly basis. Details of the share awards held in trust under the SIP on behalf of Senior Managers as at Latest Practicable Date are set out in the table below and cover the awards purchased or acquired (as applicable) on a monthly basis between May 2012 and May 2018:

	Total number of Shares held in the SIP
Stephen Jefford	351
Susan McInnes	1,644
Andrew Moss	2,187
Rakesh Thakrar	2,391

11. SUBSIDIARIES AND CORPORATE STRUCTURE

11.1 Corporate structure

The Company was incorporated in 2008 and is the ultimate parent company of the Group, which comprises the Company and its subsidiary undertakings.

11.2 Significant subsidiary and associated undertakings of the Company

The following is a list of the Company's significant subsidiaries as at the date of this document:

Wholly-owned subsidiaries

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Abbey Life Assurance Company Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company
Impala Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
PA (GI) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company
Pearl Group Holdings (No. 1) Limited	Juxon House 100 St Paul's Churchyard London EC4M 8BU United Kingdom	100 per cent.	Holding company
Pearl Group Holdings (No. 2) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Pearl Group Management Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Service company
Pearl Group Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Service company
Pearl Life Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
PGH (LCA) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
PGH (LCB) Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Phoenix Life Assurance Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company
Phoenix Life Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Phoenix Life Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Insurance company
Phoenix Unit Trust Managers Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Management of unit trusts
Phoenix Wealth Holdings Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Holding company
Phoenix Wealth Services Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Service company
SunLife Limited	1 Wythall Green Way Wythall, Birmingham B47 6WG United Kingdom	100 per cent.	Distribution company

Investment

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Primary field of activity
UK Commercial Property Trust Limited	Trafalgar Court, Les Banques St., Peter Port, Guernsey	47.87 per cent.	Commercial property company

For a full list of the Company's interests in subsidiaries and joint ventures please see Note H at pages 170 to 177 in the notes to the consolidated financial statements in the Annual Report and Accounts for the year ended 31 December 2017, which are incorporated by reference into this document as set out in Part XVI ("*Documents Incorporated by Reference*").

11.3 SLAL

The following is a list of SLAL's subsidiaries as expected at the date of Completion:

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
28 Ribera del Loira SL..........	c/Nanclares de Oca 1B 28022 Madrid Spain	100 per cent.	Dormant
3 St Andrew Square Apartments Limited...............	1 George Street Edinburgh, EH2 2LL United Kingdom	100 per cent.	Property holding company
330 Avendia de Aragon SL....	c/Nanclares de Oca 1 B 28022 Madrid Spain	100 per cent.	Dormant
G Park Management Company Limited..................	Bow Bells House 1 Bread Street London EC4M 9HH United Kingdom	100 per cent.	Property management
Gallions Reach Shopping Park (Nominee) Limited.........	Bow Bells House 1 Bread Street London EC4M 9HH United Kingdom	50 per cent.	Nominee company
Hundred Sarl.........................	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Property holding company
Iceni Nominees (No. 2) Limited	Bow Bells House 1 Bread Street London EC4M 9HH United Kingdom	100 per cent.	Dormant
Inesia SA	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Property holding company
Inhoco 3107 Limited	Bow Bells House 1 Bread Street London EC4M 9HH United Kingdom	50 per cent.	General partner of Gallions Reach Shopping Park LP
Lake Meadows Management Company Limited..................	Bow Bells House 1 Bread Street London EC4M 9HH United Kingdom	100 per cent.	Property management
Lothian Developments III (Nederland) BV	Telestone 8 – Teleport Naritaweg 165 1043 BW Amsterdam The Netherlands	100 per cent.	Dormant
SL (Newco) Limited..............	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Dormant
SLA Belgium No.1 S.A.........	Avenue Louise 326 bte 33 1050 Brussels Belgium	100 per cent.	Property holding company

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
SLA Germany No.1 Sarl........	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Property holding company
SLA Germany No.2 Sarl........	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Property holding company
SLA Germany No.3 Sarl........	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Property holding company
SLA Ireland No.1 Sarl	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Property holding company
SLA Netherlands No.1 BV	Telestone 8 – Teleport Naritaweg 165 1043 BW Amsterdam The Netherlands	100 per cent.	Property holding company
SLACOM (No. 8) Limited.....	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Property loan provider
SLACOM (No. 9) Limited.....	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Dormant
SLACOM (No. 10) Limited...	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Dormant
SLIF Property Investment GP Limited	1 George Street Edinburgh EH2 2LL United Kingdom	100 per cent.	General partner of SLIF Property Investment LP
Standard Life Agency Services Limited	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Dormant
Standard Life Assets and Employee Services Limited.....	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Provision of staff and support services
Standard Life Assurance (HWPF) Luxembourg Sarl.....	6B, rue Gabriel Lippman Parc d'Activite Syrdrall 2 L-5365 Munsbach Luxembourg	100 per cent.	Holding company
Standard Life International d.a.c.	90 St. Stephen's Green Dublin D2 Ireland	100 per cent.	Life assurance

Name	Country of incorporation and registered office	Percentage of ownership interest and voting power	Primary field of activity
Standard Life Investment Funds Limited	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Life assurance
Standard Life Lifetime Mortgages Limited	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Mortgage finance
Standard Life Master Trust Co. Ltd	Standard Life Workplace Proposition 14th Floor, 30 St. Mary Axe London EC3A 8BF United Kingdom	100 per cent.	Trustee company
Standard Life Pension Funds Limited	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Life assurance
Standard Life Private Equity Trust Plc	1 George Street Edinburgh EH2 2LL United Kingdom	54 per cent.	Investment trust
Standard Life Property Company Limited..................	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Dormant
Standard Life Trustee Company Limited	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Trustee company
The Heritable Securities and Mortgage Investment Association Limited................	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Dormant
The Standard Life Assurance Company of Europe B.V........	Telestone 8 – Teleport Naritaweg 165 1043 BW Amsterdam The Netherlands	100 per cent.	Proeprty holding company
Vebnet (Holdings) Limited.....	14th Floor, 30 St. Mary Axe London EC3A 8BF United Kingdom	100 per cent.	Holding company
Vebnet Limited.......................	Standard Life House 30 Lothian Road Edinburgh, EH1 2DH United Kingdom	100 per cent.	Development and distribution of technology
Welbrent Property Investment Company Limited..................	Bow Bells House 1 Bread Street London EC4M 9HH United Kingdom	100 per cent.	Property holding company

12. MATERIAL CONTRACTS

12.1 The Company

The following contracts (not being contracts entered into in the ordinary course of business) (i) have been entered into by the Company or another member of the Group within the two years immediately preceding the date of this document and are or may be material or (ii) have been entered into prior to such period and contain provisions under which a member of the Group has an obligation or entitlement which is material to the Group.

12.1.1 *Standard Life Assurance Acquisition Agreements*

For a description of the agreements entered into by the Company in relation to the Acquisition, see Part XIV ("*Terms of the Acquisition*") of this document.

12.1.2 *Abbey Life Sale and Purchase Agreement*

On 28 September 2016, PLHL and the Company entered into a sale and purchase agreement (the "**Abbey Life SPA**") with, among others, Deutsche Bank for the acquisition of Abbey Life (the "**Abbey Life Acquisition**").

PLHL has undertaken in the Abbey Life SPA to indemnify Deutsche Holdings No. 4 Ltd ("**Deutsche Holdings**") and its group against any losses arising after completion of the Abbey Life Acquisition under the defined benefits pension scheme sponsored by ALAC, including losses resulting from the use of the statutory moral hazard powers of the Pensions Regulator against Deutsche Bank's group to order money to be paid into that scheme. The indemnity is capped at £150 million and the potential powers of the Pensions Regulator are time limited by the periods set out in the Pensions Act 2004.

Deutsche Holdings has given an indemnity in favour of PLHL in respect of losses, liabilities or costs that ALAC or other target companies may incur relating to ALAC or another target company being treated as making unauthorised payments to certain members in respect of whom ALAC or another target company has a contractually vested annuity and was unable to trace at the time of the contractual vesting date, subject to the limitations outlined below. For a description of certain other indemnities given by Deutsche Holdings in favour of PLHL, see paragraph 12.1.3 "*Abbey Life Deed of Indemnity*" in this Part XV ("*Additional Information*").

Deutsche Holdings' total liability in respect of all claims relating to the Abbey Life Acquisition by PLHL is not to exceed the net consideration paid to Deutsche Holdings. This includes claims pursuant to the tax covenant, core warranties (e.g., related to Deutsche Holdings' title to the shares) and core covenants (e.g., related to transfer of the shares, Deutsche Holdings' parental guarantee and pre completion conduct) in the Abbey Life SPA. A sub cap of £320 million applies to other claims in relation to the Abbey Life Acquisition, including pursuant to non-core warranty claims and the Abbey Life Deed of Indemnity.

The Company has guaranteed PLHL's obligations under the Abbey Life SPA so that if PLHL does not, or cannot, meet those obligations, then the Company has to meet them. Furthermore, Deutsche Holdings can bring a claim against the Company for failing to comply with its obligations under the guarantee.

Deutsche Bank has guaranteed Deutsche Holdings' obligations under the Abbey Life SPA so that if Deutsche Holdings does not, or cannot, meet those obligations, then Deutsche Bank has to meet them. Furthermore, PLHL can bring a claim against Deutsche Bank for failing to comply with its obligations under the guarantee.

12.1.3 *Abbey Life Deed of Indemnity*

On 30 December 2016, Deutsche Holdings, Deutsche Bank, ALAC and PLHL entered into a deed of indemnity (the "**Abbey Life Deed of Indemnity**"). Under the Abbey Life Deed of Indemnity, Deutsche Holdings provided an indemnity to PLHL with respect to (i) the FCA's investigation into ALAC's fair treatment of long-standing customers between 1 December 2008 and 31 December 2015 resulting from the FCA's thematic review (TR 16/2); and (ii) the issues arising from the FCA's thematic review into annuity sales practices (TR 14/20).

Deutsche Holdings' liability under the Abbey Life Deed of Indemnity is limited to £175 million. Deutsche Bank has guaranteed the due and punctual performance of Deutsche Holdings' obligations under the Abbey Life Deed of Indemnity.

The Abbey Life Deed of Indemnity will expire six years from the date of the agreement (in respect of the long standing customer investigation) and eight years from the date of the agreement (in respect of the annuity sales investigation). Deutsche Holdings also has certain other termination rights.

The Abbey Life Deed of Indemnity provides for risk sharing between Deutsche Holdings and PLHL. Subject to the liability limit of £175 million, Deutsche Holdings' share in relation to the FCA's long standing customer investigation is as follows:

- *Fines*: Deutsche Holdings is liable for 100 per cent. of all fines;
- *Customer redress*: Deutsche Holdings is liable for 60 per cent. of any amounts up to £10 million; 80 per cent. of any amounts in excess of £10 million and up to £30 million; and 90 per cent. of any amounts in excess of £30 million;
- *Professional fees*: Deutsche Holdings is liable for 80 per cent. of certain professional fees; and
- *Redress programme costs*: Deutsche Holdings is liable for 80 per cent. of certain redress programme costs.

The Deutsche Holdings share in relation to the annuity sales investigation is as follows:

- *Fines*: Deutsche Holdings is liable for 100 per cent. of all fines;
- *Customer redress*: Deutsche Holdings is liable for 90 per cent. of all amounts for customer redress;
- *Professional fees*: Deutsche Holdings is liable for 80 per cent. of certain professional fees; and
- *Redress programme costs*: Deutsche Holdings is liable for 80 per cent. of certain redress programme costs.

The parties will set up a monitoring committee which will consist of representatives from Deutsche Holdings, Deutsche Bank, PLHL and ALAC. The monitoring committee will oversee the management of costs, assist Deutsche Holdings in monitoring its liability and assist with setting up any redress programmes. ALAC is obligated to provide periodic updates, correspondence and other materials under the FCA investigations to the monitoring committee.

12.1.4 ***Revolving Credit Agreement***

The Company (as guarantor and, from 28 February 2017, as borrower), PGH Capital (as borrower) and Commerzbank Finance & Covered Bond S.A. (formerly known as Commerzbank International S.A.) (as agent), among others, are party to the Revolving Credit Agreement. Under the Revolving Credit Agreement, the lenders have made available a multicurrency revolving loan facility in an aggregate principal amount equal to £900 million.

As a result of the amendment and restatement in March 2016, the Revolving Credit Agreement became a £650 million unsecured revolving credit facility, maturing in June 2020. On 9 November 2016, the Revolving Credit Agreement was fully repaid before being drawn down again on 28 December 2016. On the same date, the Group drew down a further £250 million tranche of this facility to finance part of the Abbey Life Acquisition, again increasing borrowing under the Revolving Credit Agreement to £900 million. On 29 December 2016, £50 million of the Revolving Credit Agreement was repaid. The £900 million facility is now fully undrawn.

The final maturity date of the facility under the Revolving Credit Agreement is 30 June 2022, following the exercise of two extension options, with the first being effective on 30 March 2017 and the second being effective on 27 February 2018. There are no mandatory or target amortisation payments associated with the facility (but the facility is subject to customary event-driven mandatory prepayment obligations) and the current applicable interest rate would be LIBOR plus 1.10 per cent., with the margin linked to the credit rating of the Company.

The Revolving Credit Agreement has been amended to (among other matters) permit the Acquisition (and certain other factors relating to the Acquisition) and to provide that the unsecured revolving credit facility made available under the Revolving Credit Agreement is available on a customary certain funds basis in connection with the Acquisition. Such amendments became effective on 2 May 2018.

12.1.5 ***Backstop Revolving Credit Agreement***

The Company (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, entered into a backstop revolving credit agreement dated 23 February 2018. Under the

Backstop Revolving Credit Agreement, the lenders made available a multicurrency revolving loan facility on a customary certain funds basis in an aggregate principal amount equal to £900 million. The terms of the Backstop Revolving Credit Agreement closely mirrored the terms of the Revolving Credit Agreement, with the Backstop Revolving Credit Agreement intended to be available for use by the Group in circumstances where the lenders under the Revolving Credit Agreement were not willing to give their consent to the Acquisition, One of the conditions to the drawdown of loans under the Backstop Revolving Credit Agreement was the cancellation in full of the Revolving Credit Agreement.

The lenders under the Revolving Credit Agreement were asked to give their consent to the Acquisition (and certain other matters relating to the Acquisition) and the requisite majority of lenders gave their consent on 2 May 2018. As a result of such consent being granted, the commitments under the Backstop Revolving Credit Agreement will be cancelled. If the requisite majority of lenders under the Revolving Credit Agreement do not give their consent, it is intended that the Revolving Credit Agreement were cancelled on 2 May 2018.

12.1.6 ***Acquisition Facility Agreement***

The Company (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, are party to an acquisition facility agreement dated 23 February 2018. Under the Acquisition Facility Agreement, the lenders have made available a sterling term loan facility on a customary certain funds basis in an aggregate principal amount equal to £600 million.

The final maturity date of the facility under the Acquisition Facility Agreement is twelve months after Completion. The Company is entitled to request two six-month extensions to the term of the facility (which would together extend the maturity date to 24 months after Completion). Each such six-month extension option is conditional only on there being no continuing event of default.

There are no mandatory or target amortisation payments associated with the facility, but the facility is subject to customary event-driven mandatory prepayment obligations, including an obligation to repay the facility from the net cash proceeds of any debt issued by the Company in the debt capital markets, subject to certain exceptions. The applicable interest for the first six-month period following Completion will be LIBOR plus 0.50 per cent., with the applicable margin increasing on each six-month anniversary of Completion.

If the Company determines that it has sufficient resources available to it to complete the Acquisition without utilising all or part of the commitments under the Acquisition Facility Agreement, the Company may elect to cancel all or part of the commitments under the Acquisition Facility Agreement.

12.1.7 ***The Pearl Scheme Agreements***

On 27 November 2012, PGH2 entered into an agreement with the trustee of the Pearl Scheme which sets out an agreed contractual framework for contributions to the Pearl Scheme (the "**2012 Pensions Agreement**"), which replaces a previous funding agreement dated 26 June 2009.

Under the 2012 Pensions Agreement, PGH2 will make certain specific payments to the Pearl Scheme. The first contribution of £72 million was paid in September 2013, the second contribution of £68 million was paid on 30 September 2014 and two further contributions of £40 million each were paid on 30 September 2015 and 30 September 2016. The remaining payments are £40 million to the scheme on 30 September of each year from 2017 until 2021, although it was agreed in June 2017 that future contributions will be paid on a monthly basis. These contributions can be increased and further contributions may become payable after 2021 in certain circumstances under the 2012 Pensions Agreement, if the scheme is not anticipated to meet two agreed funding targets. The funding targets are to reach full funding on the technical provisions basis by 30 June 2022 and to reach full funding on a gilts flat basis by 30 June 2031.

There is a sharing mechanism that, in certain circumstances, allows for an acceleration of the contributions to be paid to the Pearl Scheme. This mechanism shall cease to apply if the trustees cease to follow a new investment strategy, which is a lower risk investment strategy than the previous investment strategy.

For the purposes of the 2012 Pensions Agreement, the "**Gilts Based Deficit**" is the scheme deficit calculation on a basis linked to UK government securities.

Charges over the shares of PLAL, PGS and PGS2 Limited that were granted to the trustee of the Pearl Scheme under the predecessor of the 2012 Pensions Agreement remain in place. The value of the security claim guaranteed under the share charges is the lower of the £600 million and 100 per cent. of the Gilts Based Deficit revalued every three years. The trustee will be entitled to enforce its

security under these share charges if PGH2 fails to comply with certain provisions under the 2012 Pensions Agreement including, without limitation to pay amounts when due, if the ratio of the embedded value of PGH2 to the value of the security claim falls below 1.05:1 for two months and is not cured, and customary events in connection with such security documents. Enforcement action by the trustee of the Pearl Scheme would be an event of default under the Revolving Credit Agreement and the Acquisition Facility Agreement. The security charges also include certain restrictions on transfer, including to other parts of the Group.

PGH2 has agreed to maintain two covenant tests. If these tests are not met, restrictions on dividend payments by PGH2 will apply. These covenant tests require that PGH2's embedded value will be maintained at the greater of:

(a) 1.3 times the lower of £600 million and 60 per cent. of the Gilts Based Deficit; and

(b) the Gilts Based Deficit less 50 per cent. of the projected investment outperformance over gilts to 2031.

PGH2 is restricted from paying dividends if its embedded value falls below the Gilts Based Deficit.

The agreement reached in the 2012 Pensions Agreement is subject to the statutory funding regime in the Pensions Act 2004.

For further information on the Pearl Scheme, see the section headed "*The Pearl Scheme*" in Part IV ("*Business Overview of the Group*") of this document.

12.1.8 ***The 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 2017, no further contributions are due to be paid into the scheme. The performance of PeLHL under the guarantee has been guaranteed by PGH1.

For further information on the PGL Pension Scheme, see the section headed "*The PGL Pension Scheme*" in Part IV ("*Business Overview of the Group*") of this document.

12.1.9 ***Abbey Life Pension Scheme***

In June 2013, Abbey Life set up the 2013 Charged Account into which payments were made under a funding agreement with the Trustees.

In June 2017, PeLHL agreed a new funding agreement with the Trustees under which the following deficit reduction payments will be due:

- an initial payment of £25 million in July 2017 with monthly contributions of £400,000 between 1 July 2017 and 30 June 2026;
- if the scheme shows a deficit on a defined technical provisions basis as at 31 March 2021, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in the 2013 Charged Account; and
- a payment of £4 million by 31 July each year from 2017 to 2025 into the 2016 Charged Account. If the scheme shows a deficit on a defined technical provisions basis as at 31 March 2027, PeLHL must pay to the scheme the lower of the deficit and the value of the assets in this second escrow account.

The 2013 Charged Account and the 2016 Charged Account contained a combined £44.8 million as at 31 December 2017.

The agreement reached by PeLHL with the Trustees is subject to the statutory funding regime in the Pensions Act 2004.

For further information on the Abbey Life Pension Scheme, see the section headed "*The Abbey Life Pension Scheme*" in Part IV ("*Business Overview of the Group*") of this document.

12.1.10 ***Outstanding debt***

As at the date of this document, the Group has the following outstanding capital markets debt instruments:

Title	Issuer	Date Issued	Listing
£500,000,000 5.75 per cent. fixed rate reset perpetual restricted tier 1 write down notes..........	Phoenix	26 April 2018	LSE
U.S.$500,000,000 5.375 per cent. Tier 2 Notes due 2027	Phoenix	6 July 2017	LSE
£450,000,000 4.125 per cent. Tier 3 Notes due 2022	Phoenix	20 January 2017 and 5 May 2017	LSE
£428,113,000 6.625 per cent. Subordinated Notes due 2025...	Phoenix	23 January 2015	LSE
£300 million senior unsecured 5.75 per cent. Bonds due 2021 (of which £122 million remains outstanding)...	Phoenix	7 July 2014	LSE
£200 million 7.25 per cent. undated, unsecured Tier 2 notes (earliest redemption date is 25 March 2021 and each fifth anniversary thereafter)...........	Phoenix Life Limited	July 2001	Luxembourg Stock Exchange
£120 million 7.5873 per cent. Class A2 limited recourse bonds due 2022	Mutual Securitisation plc(1)	1998	Irish Stock Exchange LSE

Note:

(1) The proceeds of the issue of these bonds were lent to National Provident Institution pursuant to a loan agreement between, amongst others, National Provident Institution and Mutual Securitisation plc dated 16 April 1998. Following the demutualisation of National Provident Institution and two subsequent insurance business transfer schemes in 1999 and in 2015, the obligations in relation to the loan agreement have been assumed by PLAL.

For further information on the Group's outstanding debt instruments, see the section headed "*Description of certain other indebtedness*" in Part VIII ("*Operating and Financial Review of the Group*") of this document.

12.1.11 ***Annuity business transfer agreements***

PLL, PLAL and NPLL entered into an annuity business transfer agreement with Guardian Assurance Limited on 26 June 2012 and PLL entered into a further agreement with Guardian on 31 July 2014, which was amended on 23 August 2016. Following on from these agreements, annuities written within PLL, PLAL and NPLL have been transferred outside the group under two Court-sanctioned schemes under Part VII of FSMA.

PLAL and PLL retain responsibility for any misselling liability in connection with the original sale of the transferred policies.

12.1.12 ***AXA Sale and Purchase Agreement***

On 27 May 2016, the Company and PLHL entered into the AXA SPA with AXA UK for the acquisition of the SunLife Embassy Business. The Company has guaranteed the obligations of PLHL under the AXA SPA. The acquisition completed on 1 November 2016 for £373 million in cash.

Under the terms of the AXA SPA, AXA UK has given certain warranties and indemnities to PLHL and PLHL has given certain limited warranties to AXA UK, all of which are generally typical for transactions in the pensions and protection business.

12.1.13 ***AXA Transitional Service Agreement***

A transitional services agreement was executed between: (i) Winterthur Life UK Holdings Limited (now Phoenix Wealth Holdings Limited); (ii) AXA Sun Life Direct Limited (now Phoenix SL Direct Limited) (together, the "**SunLife Embassy Companies**"); (iii) AXA UK; and (iv) AXA Portfolio Services Limited (now Elevate Portfolio Services Limited) ("**APS**"). AXA UK is the main service provider under this transitional services agreement. However, limited services are provided to the SunLife Embassy Companies from APS and to APS from the SunLife Embassy Companies.

Services will be provided for up to two years, subject to the rights of the parties to terminate early in certain circumstances. Services are being reduced and/or terminated as the SunLife Embassy Companies are integrated into the Phoenix business.

The services to be provided by AXA UK to the SunLife Embassy Companies include provision of various IT and operational services, certain product tools, corporate tax and VAT support, HR services, back office processing, accounting/reporting and facilities management services. The services to be provided by the SunLife Embassy Companies to APS relate to limited IT support services. The services to be provided by APS to the SunLife Embassy Companies relate to the provision of certain product tools and services.

12.1.14 ***Contracts relating to the Divestment of Ignis Asset Management***

On 25 March 2014, the Group agreed to dispose of the entire issued share capital of Ignis Asset Management to Standard Life Investments, in return for total consideration of £390 million which was paid in cash upon completion of the divestment. Completion of the divestment occurred on 1 July 2014. A payment of £6 million was made to Standard Life on 24 September 2014 in relation to certain contractual balance sheet adjustments which could not be calculated until after closing.

As part of the divestment, Impala agreed to a purchase price adjustment in the event that assets held by the Phoenix Life Companies are withdrawn from management by Ignis Asset Management, other than for specific reasons such as poor investment performance or for material breaches of the existing Investment Management Agreements between the Phoenix Life Companies and Standard Life Investments (formerly Ignis Investment Services Limited). A purchase price adjustment can only be triggered as a result of a decision by the relevant member of the Group to withdraw assets from management by Ignis Asset Management. The Company has also guaranteed Impala's obligations in connection with the divestment, including indemnities given by Impala to Standard Life Investments and Impala's obligations in respect of any purchase price adjustment.

The existing investment management agreements between certain of the Phoenix Life Companies and Ignis Asset Management remain in force following the divestment. This includes the existing fee arrangements remaining broadly the same and the notice periods for withdrawal of assets without cause remaining generally on a three year rolling basis. Under the agreement dated 25 March 2014 between the Company, Impala and Standard Life Investments relating to the divestment of Ignis Asset Management, Impala has agreed to a purchase price adjustment for a period of 10 years if a Phoenix Life Company withdraws assets from management by Ignis Asset Management or any of its subsidiaries under an Investment Management Agreement, subject to certain exceptions. The Impala purchase price adjustment is effectively absorbed within the Purchase Price Adjustment entered into in connection with the Acquisition.

This price adjustment mechanism is calculated on the basis of the base management fees that would have been payable under the relevant Investment Management Agreement, assuming the assets had not been withdrawn and taking into account the expected run off profile of the relevant assets. No purchase price adjustment shall be payable in respect of any other fees or costs including performance fees and stock lending fees. For each of the last five years of the price adjustment period, the purchase price adjustment payable will be discounted at a rate of 50 per cent. The purchase price adjustment is net of a notional corporation tax amount determined in accordance with the terms of the divestment.

A purchase price adjustment is not payable in certain circumstances, including if the assets are withdrawn due to investment underperformance or a material breach of the Investment Management Agreement by the relevant asset manager. In addition, if any of the Phoenix Life Companies terminates an Investment Management Agreement on contractual notice, then no purchase price adjustment is payable in respect of the relevant notice period, but a purchase price adjustment would continue to apply in respect of the period between the end of such notice period and the end of the price adjustment period. If Completion occurs, this arrangement will be subsumed into the Purchase Price Adjustment. For further details of the terms of the Purchase Price Adjustment, see paragraph 2 ("*Principal Terms of the Purchase Price Adjustment*") of Part XIV ("*Terms of the Acquisition*") of this document.

12.1.15 ***Santander Reinsurance***

In 2012, ALAC reinsured 100 per cent. of a life portfolio written by a Spanish subsidiary and a Portuguese subsidiary of Grupo Santander. This entitles ALAC to be paid the premiums, and to pay claims, under policies which are part of the portfolio.

ALAC paid a single upfront payment as reinsurance commission to the Grupo Santander subsidiaries. The funding for the single upfront payment was provided to ALAC by a reinsurance with Axia. It is anticipated that over time the value of this payment will be paid back by ALAC to Axia out of the surplus arising from the portfolio.

Where the value of the premiums paid to ALAC does not exceed the value of the claims due by more than a certain amount, then a third party reinsurer (the "retrocessionaire") provides an additional contribution so that ALAC can meet its obligations to the Grupo Santander companies and can pay Axia. Where the value of the premiums paid to ALAC exceeds the value of the claims due by more than a certain amount, the retrocessionaire is paid some of that surplus, while the remainder is used to pay Axia. In each case, ALAC will retain a fixed profile of payments and only has to make onward payments when it is provided with matching funds by the relevant counterparty.

Once Axia has been paid back it is expected that at that time the reinsurance with Grupo Santander will be transferred to the retrocessionaire and ALAC's participation will cease.

12.1.16 ***Cashflow swap with Deutsche Bank in relation to the de-risking transaction with the Rolls Royce and Bentley pensions scheme***

On 25 March 2013, ALAC entered into a de-risking transaction with the trustee of the Rolls Royce and Bentley pensions scheme, Rolls Royce & Bentley Pensions Fund Trustee Limited. Under the terms of this arrangement the trustee pays ALAC a fixed profile of payments and in return ALAC pays the trustee a series of cashflows representing the benefits payable by the trustee to certain beneficiaries of the Rolls Royce and Bentley pensions scheme. A proportion of the fixed profile of payments is then passed to certain reinsurers. In return the reinsurers provide ALAC with the funds to meet a proportion of its obligations under ALAC's contract with the trustee. These type of arrangements are of the type carried out by ALAC with other pension scheme trustees. However, the timing of the cashflows into ALAC do not match the timing of the cashflows out of ALAC prescribed under the various agreements. In other words, there is a mismatch between the timing of ALAC's payment obligations under the reinsurance arrangements and the times it is provided with matching funds by the relevant counterparty to meet its obligations under the contract with the trustee. To address the cashflow mismatch, and to prevent ALAC having to hold significant additional liquidity to address the cashflow issue, ALAC entered into a cashflow swap with Deutsche Bank.

The key terms of the cashflow swap are as follows:

- Deutsche Bank will provide payments so that ALAC can meet its obligations under the combined de-risking transaction and related reinsurance arrangements; and
- ALAC has to provide collateral to Deutsche Bank in respect of certain risks.

It is intended that the cashflow swap will remain in place for the length of the Rolls Royce and Bentley pensions scheme de-risking transaction.

12.1.17 ***Sponsor and Underwriting Agreement***

The Company and the Banks have entered into a sponsor and underwriting agreement dated 30 May 2018 which sets out the terms on which the Company has appointed (i) HSBC to act as sponsor in relation to the Rights Issue, the Acquisition and Re-Admission; (ii) BofA Merrill Lynch, HSBC and JPM to act as Joint Global Coordinators in connection with the Rights Issue; and (iii) BofA Merrill Lynch, BNPP, HSBC and JPM to act as Joint Bookrunners in connection with the Rights Issue (the "**Sponsor and Underwriting Agreement**"). The Sponsor and Underwriting Agreement contains warranties and undertakings given by the Company which are customary for an agreement of this kind. In addition, it contains indemnities from the Company in favour of the Banks in respect of certain liabilities connected with Admission and documentation issued to Shareholders and/or investors by or on behalf of the Company in connection with the Rights Issue and the Acquisition, which, again, are customary for an agreement of this kind. Pursuant to the Sponsor and Underwriting Agreement, the Joint Global Coordinators may terminate the agreement in certain limited circumstances prior to Admission. The Sponsor and Joint Global Coordinators are not entitled to terminate the Sponsor and Underwriting Agreement in respect of the Rights Issue after Admission.

Subject to the terms and conditions of the Sponsor and Underwriting Agreement, the Banks have severally agreed to use reasonable endeavours to procure subscribers, or failing which, to themselves severally subscribe for New Shares not taken up under the Rights Issue or will procure sub-underwriters to do so, in each case, at not less than the Issue Price. In consideration of the Banks'

agreement to underwrite the New Shares and subject to their obligations under the Sponsor and Underwriting Agreement having become unconditional, the Company shall pay to the Banks 1.40 per cent. of the value of New Shares at the Issue Price. The Company shall pay (whether or not the obligations of the Banks under the Sponsor and Underwriting Agreement become unconditional or are terminated) all properly incurred costs and expenses of, or in connection with, the Acquisition, the Rights Issue, Admission and the arrangements contemplated by the Sponsor and Underwriting Agreement.

The obligations of the Banks under the Sponsor and Underwriting Agreement in respect of the Rights Issue are subject to certain conditions being satisfied, including, amongst others:

(i) the Company having complied with and satisfied all its obligations, in each case under the Sponsor and Underwriting Agreement or under the terms and conditions of the Rights Issue, that fall to be performed or satisfied on or prior to Admission;

(ii) the warranties, representations and undertakings given by the Company in the Sponsor and Underwriting Agreement being true and accurate and not misleading on and as of the date of the Sponsor and Underwriting Agreement, the date of this document, the date of any supplementary prospectus and/or circular and the date of Admission;

(iii) the Share Purchase Agreement being in full force and effect and not having been materially amended (without the consent of the Joint Global Coordinators, such consent not to be unreasonably withheld or delayed) or terminated or been the subject of a notice of termination at any time on or prior to Admission and there not having arisen or become known at or before Admission any material fact or circumstance that would prevent or would be reasonably likely to prevent completion of the Acquisition (including, without limitation, any condition having been breached or having become impossible to fulfil);

(iv) none of the agreed forms or key heads of terms, as applicable, of the Customer Service and Proposition Agreement, the Investment Management Agreement, the Relationship Agreement and the Transitional Services Agreement having been amended at any time on or prior to Admission in a manner that would or could reasonably be expected to be material in the context of the Rights Issue (without the consent of the Joint Global Coordinators, such consent not to be unreasonably withheld or delayed); and

(v) Admission becoming effective by not later than 8.00 a.m. on 26 June 2018 (or such later time and/or date as the Company may agree with the Joint Global Coordinators).

If any of the conditions are not satisfied prior to Admission (or waived by the Joint Global Coordinators), then the Sponsor and Underwriting Agreement shall terminate, without prejudice to any liability for any prior breach of the agreement or pursuant to certain surviving provisions. For the avoidance of doubt, Admission will not proceed in the event the conditions are not satisfied or the Sponsor and Underwriting Agreement is terminated. The Sponsor and Underwriting Agreement in respect of the Rights Issue is not capable of termination following Admission.

In addition, the Company has further agreed that between the date of this document and the date falling 180 days after Admission, it will not, without the prior written consent of the Joint Global Coordinators (i) issue, offer, pledge, sell, contract to sell, grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or other shares in the capital of the Company; or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or other shares in the capital of the Company, provided that such agreement shall not prevent or restrict: (a) the grant of options under, or the allotment and issue of shares pursuant to any existing employee share schemes of the Company or (b) the allotment and issue of shares pursuant to contractual obligations in existence at the date of this document.

The Banks have agreed that they will not procure subscribers for any of the New Shares other than in accordance with certain selling restrictions.

12.1.18 ***Receiving Agent Agreement***

The Company has entered into a receiving agent agreement dated 8 May 2018 with the Receiving Agent pursuant to which the Receiving Agent has agreed to act as receiving agent in connection with the Rights Issue. Under the terms of the agreement, the Receiving Agent is entitled to certain fixed and variable fees for its services under the agreement. The Receiving Agent will also be entitled to

reimbursement of all out of pocket expenses reasonably incurred by it in connection with its duties. The Company has given certain customary indemnities in favour of the Receiving Agent in respect of the Receiving Agent's potential losses in carrying on its responsibilities under the agreement. The Receiving Agent's liabilities under the agreement are subject to a cap. The agreement is governed by English law.

12.2 Standard Life Assurance

The following contracts (not being contracts entered into in the ordinary course of business): (i) have been entered into by Standard Life Assurance (or any of its subsidiaries) within the two years immediately preceding the date of this document and are or may be material; or (ii) have been entered into prior to such period and contain provisions under which Standard Life Assurance (or any of its subsidiaries) has an obligation or entitlement which is material to Standard Life Assurance.

12.2.1 *Standard Life Assurance Acquisition Agreements*

For a description of the agreements entered into by Standard Life Assurance in relation to the Acquisition, see Part XIV ("*Terms of the Acquisition*") of this document.

12.2.2 *Regulatory Capital Instruments*

For a description of the Regulatory Capital Instruments and the related collateralisation arrangements agreed between the Company and Standard Life Aberdeen in connection with the Acquisition, see the section headed "*Description of certain other indebtedness*" in Part X ("*Operating and Financial Reiew of Standard Life Assurance*").

13. DEPOSITARY CONTRACTS

13.1 Deed Poll

The Depositary Interests were created pursuant to, and issued on the terms of, the Deed Poll dated 2 June 2010.

Each Depositary Interest will be treated by the Depositary as one Share for the purposes of determining, for example, eligibility for any distributions. The Depositary has agreed to pass on to holders of Depositary Interests any stock or cash benefits received by it as holder of Shares on trust for such Depositary Interest holder.

In summary, the Deed Poll contains, among other things, provisions to the following effect:

- the Depositary, which is regulated by the FCA, will hold (itself or through the Custodian), as bare trustee, the underlying Shares issued by the Company and all and any rights and other securities, property and cash attributable to the underlying Shares for the time being held by the Depositary or Custodian pertaining to the Depositary Interests for the benefit of the Depositary Interest holders;
- the Depositary will re-allocate securities or distributions allocated to the Depositary or the Custodian pro rata to the Shares held for the respective accounts of the holders of Depositary Interests but will not be required to account for fractional entitlements arising from such re-allocation;
- each Depositary Interest holder warrants, among other things, that the Shares transferred or issued to the Depositary or Custodian for the account of such Depositary Interest holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Articles or any contractual obligation, or applicable law or regulations binding or affecting such holder;
- the Depositary and any Custodian must pass on to Depositary Interest holders all rights and entitlements received by the Depositary or the Custodian in respect of the Shares. However, there can be no assurance that all such rights and entitlements will at all times be duly and timely passed on. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings must, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow a Depositary Interest holder to take up rights in Shares requiring further payment, the Depositary Interest holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights;

- the Depositary will be entitled to cancel Depositary Interests and treat the Depositary Interest holder as having requested a withdrawal of the Shares in certain circumstances, including where a Depositary Interest holder is a person whose holding of or to whom a transfer of, Depositary Interests might, in the Depositary's opinion, require the registration of the Company as an investment company under the US Investment Company Act or where a Depositary Interest holder fails to furnish to the Depositary such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate;
- the Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any Depositary Interest holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a Depositary Interest holder will be limited to the lesser of:
  - the value of the shares and other deposited property properly attributable to the Depositary Interests to which the liability relates; and
  - that proportion of £5 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the Depositary Interest holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission, or event or, if there are no such amounts, £5 million;
- the Depositary is entitled to charge Depositary Interest holders fees and expenses for the provision of its services under the Deed Poll;
- the Depositary Interest holders are required to agree and acknowledge with the Depositary that it is their responsibility to ensure that any transfer of Depositary Interests by them which is identified by the CREST system as exempt from SDRT is so exempt, and to notify the Depositary if this is not the case, and to pay to Euroclear any interest, charges or penalties arising from non-payment of SDRT in respect of such transaction;
- each Depositary Interest holder is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the Depositary Interests (and any property or rights held by the Depositary or Custodian in connection with the Depositary Interests) held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent;
- the Depositary is entitled to make deductions from any income or capital arising from the Shares, or to sell such Shares and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of Depositary Interest holders;
- the Depositary may terminate the Deed Poll by giving 30 days' notice. During such notice period holders may cancel their Depositary Interests and withdraw their deposited property and, if any Depositary Interests remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the Depositary Interests to the relevant Depositary Interest holders or, at its discretion, sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll pro rata to holders of Depositary Interests in respect of their Depositary Interests; and

- the Depositary or the Custodian may require from any holder information as to the capacity in which Depositary Interests are or were owned and the identity of any other person with or previously having any interest in such Depositary Interests and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of Depositary Interests and such information as is required for the transfer of the relevant Shares to the Depositary Interest holders. Depositary Interest holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Articles require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Shares, the Depositary Interest holders are to comply with the Company's instructions with respect thereto.

It should also be noted that the Depositary Interest holders will not have the opportunity to exercise all of the rights and entitlements which Cayman Islands law and the Articles confer on Shareholders, such as the ability to vote on a show of hands. In relation to voting it will be important for Depositary Interest holders to give prompt instructions to the Depositary to vote the Shares on their behalf.

13.2 Depositary Agreement

Under the terms of the depositary agreement dated 2 June 2010 between the Company and the Depositary (the "**Depositary Agreement**"), the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll (summarised above), Depositary Interests representing Shares and to provide certain other services in connection with such Depositary Interests (including custody services).

The Depositary agrees that it will provide the various services in good faith and with all reasonable skill and care. The depositary services to be provided by the Depositary include, for example, to maintain the register of Depositary Interests, to issue Depositary Interests to CREST members and to effect transactions relating to the Depositary Interests on behalf of CREST members and the Custodian.

The Custodian, to be appointed by the Depositary, will provide custody services including the holding of the Shares in respect of which Depositary Interests are issued by the Depositary and the execution of instructions received from CREST members in relation to the Shares held on their behalf.

In addition, the Depositary Agreement sets out the procedures to be followed where the Company is to pay or make a dividend or other distribution.

The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing the services under the Depositary Agreement.

The Depositary is to indemnify the Company and its directors against any loss which they may incur as a result of the fraud, negligence or wilful default of the Depositary or the Custodian. The appointment of the Depositary will be for a fixed period of three years, subject to early termination, and thereafter by either party giving to the other not less than six months' notice. If one party is in persistent or material breach, which (if capable of remedy) is not remedied within 21 days, or if it goes into insolvency or liquidation or ceases to have the appropriate authorisations, the other party may terminate the Depositary Agreement early by notice in writing.

The Company is to pay certain fees and charges including, among other things, an annual fee, a registrar fee, a fee based on the number of Depositary Interests which are deposited, transferred or cancelled and certain CREST related fees. The Depositary is also entitled to recover reasonable out-of-pocket fees and expenses.

13.3 Cayman Registrar Agreement

The Company has entered into a Cayman Registrar Agreement with Computershare Investor Services (Cayman) Limited (the "**Registrar**") dated 2 June 2010 (the "**Cayman Registrar Agreement**").

Under the terms of the Cayman Registrar Agreement, the Registrar will act as the registrar of the register of members of the Company kept in the Cayman Islands (the "**Offshore Register**") and provide registration services to the Company which will include maintenance of the Offshore Register, registering dealings of Shares via CREST and maintenance of dividend payment instructions.

Under the Cayman Registrar Agreement, the Registrar is entitled to receive a basic annual fee as well as additional fees for specific actions.

The Cayman Registrar Agreement has an effective initial term of three years, subject to early termination, after which the agreement will continue until terminated by the Company giving the Registrar not less than six months' notice. The Cayman Registrar Agreement may be terminated immediately by either party if the other party becomes insolvent or commits a material breach which (if capable of remedy) is not remedied within 30 days.

The Company has agreed to indemnify the Registrar and its officers and employees against all and any liabilities which may be suffered or incurred by the Registrar or its officers and employees in connection with the performance of its or their obligations under the Cayman Registrar Agreement save to the extent that such liabilities may be due to the fraud, negligence or wilful default of the Registrar or its officers or employees.

The liability of the Registrar to the Company under the Cayman Registrar Agreement is limited to the fees payable to the Registrar in any 12 month period.

The Cayman Registrar Agreement is governed by the laws of the Cayman Islands.

14. TAKEOVERS

14.1 The City Code

As the Company is incorporated in the Cayman Islands, the City Code does not apply to the Company. Accordingly, the Company has incorporated provisions in the Articles to reflect, as far as practicable, certain provisions of the City Code (see paragraph 4 ("*Articles of Association and Mandatory Takeover Bids, Squeeze-Out and Sell-Out Rules*") of this Part XV ("*Additional Information*")). These provisions do not, however, provide shareholders with the full protections offered by the City Code.

In particular, the Articles provide that the Company will use its reasonable endeavours to apply and abide by the General Principles of the City Code as though the Company were subject to the City Code, comply with the provisions of the City Code applicable to an offeree if the Company is subject to an offer and, if the Board recommends an offer, obtain an undertaking from the offeror to comply with the provisions of City Code in relation to the conduct and execution of that offer as though the Company were subject to the City Code.

The Articles also include provisions that are similar in effect to Rule 9 of the City Code, subject to certain adaptations and limitations. These provisions will apply for as long as the City Code does not apply to the Company.

For example, for so long as the Panel considers that the Company is not subject to the provisions of the City Code, the Panel will not assume responsibility for ensuring compliance with the City Code in relation to the Company. Instead, it will be a matter for the Board exercising its discretion in light of prevailing circumstances and in a manner consistent with its obligations and any specific provisions included in the Articles. The Board will always exercise such powers in good faith and in a manner it believes to be in the best interests of shareholders as a whole. In attempting to fulfil the role of the Panel, the Directors would not have the same powers or have access to the same information and experience as the Panel would have on a transaction to which the City Code applies. The Articles provide that in exercising its powers under the Articles, the Board will comply with the principle that all Shareholders that are in the same position shall be treated equally in respect of the rights attaching to their shares and otherwise in accordance with their duties under applicable law. The Board intends that the City Code should be observed and will exercise all discretion that the Panel would be permitted to exercise, if the City Code applied to the Company, in accordance with the practice of the Panel at the time that the discretion is so exercised so far as the Board considers it reasonably practicable and consistent with its obligations. The Company has no method of ensuring that a shareholder or other bidder that launches an offer for the Company will adhere to the principles set out in the City Code.

The City Code restricts target companies from taking frustrating action without shareholder approval when a takeover offer has been announced or is believed to be imminent, and specifies, by way of example, certain transactions that would require shareholder approval (such as the issuance of stock options, the sale of assets or the entry into contracts otherwise than in the ordinary course of business). The Company's intention to adhere to rules restricting the taking of frustrating action under the City Code will mean that the Company will be unable to take certain measures in relation

to an unsolicited takeover offer that would have otherwise been available to the Company. The Company would only deviate from this principle if, acting in good faith and in the best interests of shareholders as a whole, the Directors believe that the Company's obligations required it to do so.

Neither the validity of the provisions of the City Code nor of the specific provisions that the Company has incorporated into the Articles that are similar to certain provisions of the City Code have been determined by any Cayman Islands court, and there can be no assurance that any such provisions would be upheld or enforced by a Cayman Islands court in any or all respects or, if upheld and enforced, that a Cayman Islands court would construe these provisions in the same way as an English court or the Panel might.

The Articles include a provision which exempts the Board from liability in respect of any exercise in good faith of any discretion it has in respect of the application of the relevant provisions in the Articles or in performing its obligations.

14.2 Squeeze-out rules

Under the Companies Law, an offeror in respect of a takeover offer for the Company may, in certain circumstances, obtain the right compulsorily to acquire shares to which the offer relates but which it has not yet acquired or contracted to acquire. The offeror may not issue a notice requiring the acquisition of minority shares unless it has acquired or contracted to acquire not less than 90 per cent. in value of the shares to which the offer relates before the end of four months beginning with the date of the offer and no notice may be given after the end of the period of two months beginning with that date. The squeeze-out of minority shareholders shall be completed unless on an application made by a dissenting shareholder to the Cayman Islands court within one month from the date on which the notice was given, the Cayman Islands Court thinks fit to order otherwise. The consideration offered to those shareholders whose shares are compulsorily acquired under the Companies Law must, in general, be the same as the consideration that was available under the general offer.

15. PRE-EMPTION RIGHTS

Shareholders do not, under Cayman Islands law, have pre-emption rights over further issues of shares of the Company or securities convertible into such shares unless such rights are expressly provided for in the articles of association. The Company has included provisions in the Articles to require the Company to provide pre-emption rights to the Company's Shareholders in certain circumstances. The relevant provisions of the Articles are summarised in paragraph 4 (''*Articles of Association and Mandatory Takeover Bids, Squeeze-Out and Sell-Out Rules*'') of this Part XV (''*Additional Information*'').

16. RELATED PARTY TRANSACTIONS

Save as disclosed in Note 14 to the audited consolidated financial statements included in the Annual Report and Accounts for the years ended 31 December 2017, 2016 and 2015 which are incorporated by reference into this document as set out in Part XVI (''*Documents Incorporated by Reference*''), there were no related party transactions entered into by the Company or any member of the Group during the financial years ended 31 December 2017, 2016 and 2015 or during the period up to the Latest Practicable Date.

Save as disclosed in Note 39 to the combined historical financial information of Standard Life Assurance as at and for the years ended 31 December 2017, 2016 and 2015 set out in Part IX (''*Financial Information of Standard Life Assurance*'') of this document, there were no related party transactions entered into by Standard Life Assurance during the financial years ended 31 December 2017, 2016 and 2015 or during the period up to the Latest Practicable Date.

17. LITIGATION AND ARBITRATION PROCEEDINGS

17.1 The Group

The Phoenix Life Companies are participating in two of the FCA's thematic reviews relating to the pensions and life insurance sector. The thematic review on the fair treatment of long-standing customers in the life insurance sector has been completed and the FCA has published its final guidance. Following the thematic review, on 23 May 2017, the FCA confirmed to ALAC that it would be required to undertake a ''past business review'' covering all annuities sales over the period

from 1 July 2008 to 31 October 2016. For a description of the potential impact of these thematic reviews on the Group, see the section of this document headed "*Risk Factors*".

On 5 June 2015, PA (GI) was subject to a judgment in the Chancery Division of the Companies Court. The judgment directed that PA (GI) is liable to the claimants for mis-selling complaints and claims relating to a book of creditor insurance business that PA (GI) underwrote until 2006. As a consequence, PA (GI) is liable for complaint handling and redress with regard to these complaints. PA (GI) has paid a total of £20 million in respect of such complaints and claims, including associated costs of administering the claims, as at 31 December 2017 and has recognised an accounting provision in this regard of £40 million as at 31 December 2017. In the year ended 31 December 2017, a £21 million increase in the provision for claims was recognised.

The FCA has introduced a deadline for creditor insurance claims of August 2019. The FCA has also commenced a publicity campaign, the purpose of which is to ensure persons with a right of claim are aware of their rights prior to the deadline. Until that deadline has passed, the Company is unable to confirm its maximum exposure in respect of this matter. The campaign is likely to increase the number of complaints for which PA (GI) may have to pay redress. Such an increase could result in the total additional liability of the Group in respect of these complaints and claims being in excess of the £40 million for which provision has been made in the Company's financial statements as at 31 December 2017.

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

Save as disclosed above in this paragraph 17.1 ("*Litigation and Arbitration Proceedings—The Group*"), there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Phoenix is aware) during a period covering at least the previous 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's or the Group's financial position or profitability or, following the Acquisition, may have significant effects on the Group's and/or the Enlarged Group's financial condition or profitability.

17.2 Standard Life Assurance

Standard Life Assurance is participating in the FCA's thematic review on annuity sales. The FCA has not reached final conclusions as to the outcome of the thematic review on annuity sales and any follow-up work. For a description of the potential impact of this thematic review on Standard Life Assurance and/or the Enlarged Group, see the section of this document headed "*Risk Factors*".

Save as disclosed above in this paragraph 17.2 ("*Litigation and Arbitration Proceedings—Standard Life Assurance*"), there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this document which may have, or have had in the recent past, significant effect on Standard Life Assurance's financial position or profitability or, following the Acquisition, may have significant effects on Standard Life Assurance and/or the Enlarged Group's financial condition or profitability.

18. WORKING CAPITAL

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the bank and other facilities available to Group, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this document.

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and the bank and other facilities available to Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this document.

19. NO SIGNIFICANT CHANGE

19.1 The Group

Except for the issuance of the RT1 Notes on 26 April 2018, there has been no significant change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest audited annual financial information in relation to the Group was prepared.

19.2 Standard Life Assurance

There has been no significant change in the financial or trading position of Standard Life Assurance since 31 December 2017, being the date to which the latest audited annual combined historical financial information in relation to Standard Life Assurance was prepared.

20. AUDITORS

Ernst & Young LLP of 25 Churchill Place, Canary Wharf, London E14 5EY, United Kingdom, independent auditors, have audited and rendered an unqualified auditor's report for each of the Group's financial statements for the years ended 31 December 2017 2016 and 2015. The registered accountants of Ernst & Young LLP are members of the Institute of Chartered Accountants in England and Wales (ICAEW).

21. CONSENTS

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion of its reports on the unaudited pro forma financial information in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") and Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document in the form and context in which it is included and has authorised the contents of the part of this document which comprise its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

KPMG LLP has given and has not withdrawn its written consent to the inclusion of its report on the combined historical financial information of Standard Life Assurance which is set out in Part IX ("*Financial Information of Standard Life Assurance*") of this document in the form and context in which it is included and has authorised the contents of the part of this document which comprise its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

22. MISCELLANEOUS

The total costs, charges and expenses payable by the Company in connection with the Rights Issue, the Acquisition and associated financing are estimated to be approximately £70 million (inclusive of VAT).

Each New Share and New Depositary Interest is expected to be issued at a premium of 517.9913 pence to its nominal value of €0.0001 (converted at the applicable exchange rate as at 5.00 p.m. on 29 May 2018, being the last Business Day prior to the announcement of the terms of the Rights Issue).

23. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to, and for a period of 12 months, following Admission at Juxon House, 100 St Paul's Churchyard, London EC4M 8BU, and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

(i) the Company's Memorandum and Articles;

(ii) the historical financial information for Standard Life Assurance in respect of the three financial years ended 31 December 2017, 2016 and 2015;

(iii) the reports from Ernst & Young LLP which are set out in Part XI ("*Unaudited Pro Forma IFRS Financial Information of the Enlarged Group*") and Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document;

(iv) the report from KPMG LLP which is set out in Part IX ("*Financial Information of Standard Life Assurance*") of this document;

(v) the letters of consent referred to in paragraph 21 ("*Consents*") of this Part XV ("*Additional Information*");

(vi) a specimen Provisional Allotment Letter;

(vii) the Form of Proxy and the Form of Instruction;

(viii) the Share Purchase Agreement;

(ix) the documents incorporated by reference into this document as described in Part XVI ("*Documents Incorporated by Reference*") of this document; and

(x) this document.

Dated: 30 May 2018

PART XVI—DOCUMENTS INCORPORATED BY REFERENCE

The tables below set out the documents (or parts thereof) that are incorporated by reference into, and form part of, this document so as to provide certain information required pursuant to the Prospectus Rules and only the parts of the documents identified in the tables below are incorporated into, and form part of, this document. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

Phoenix Financial Information

Reference document	Information incorporated by reference	Page number in reference document
2017 Annual Report of the Company		
	The discussion and analysis for the financial year ended 31 December 2017 contained in the "*Business Review*" section	26-31
	Independent Auditor's report	94-102
	Consolidated income statement	103
	Statement of comprehensive income	104
	Pro forma reconciliation of Group operating profit to result attributable to owners	104
	Statement of consolidated financial position	105-106
	Statement of consolidated cashflows	107
	Statement of consolidated changes in equity	108
	Notes to the consolidated financial statements	110-181
2016 Annual Report of the Company		
	The discussion and analysis for the financial year ended 31 December 2016 contained in the "*Business Review*" section	26-33
	Independent Auditor's report	91-98
	Consolidated income statement	99
	Statement of comprehensive income	100
	Pro forma reconciliation of Group operating profit to result attributable to owners	100
	Statement of consolidated financial position	101-102
	Statement of consolidated cashflows	103
	Statement of consolidated changes in equity	104-105
	Notes to the consolidated financial statements	106-192
2015 Annual Report of the Company		
	The discussion and analysis for the financial year ended 31 December 2015 contained in the "*Financial Performance*" section	24-33
	Independent Auditor's report	87-94
	Consolidated income statement	95
	Statement of comprehensive income	96
	Pro forma reconciliation of Group operating profit to result attributable to owners	96
	Statement of consolidated financial position	97-98
	Statement of consolidated cashflows	99
	Statement of consolidated changes in equity	100-101
	Notes to the consolidated financial statements	102-187
	Independent auditor's report to the directors of Phoenix Group Holdings on the consolidated Phoenix Group MCEV	208
	Summarised consolidated income statement-Group MCEV basis	209
	MCEV earnings per ordinary share	209
	Statement of consolidated comprehensive income-Group MCEV basis	210
	Reconciliation of movement in equity-Group MCEV basis	210
	Group MCEV analysis of earnings	211
	Reconciliation of Group IFRS equity to MCEV net worth	212
	Notes to the MCEV financial statements	213-220

PART XVII-DEFINITIONS

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

"**2012 Pensions Agreement**"	the agreement dated 27 November 2012 between PGH2 and the trustees of the Pearl Scheme
"**2018 AGM**"	the AGM of the Company convened and held on 2 May 2018
"**2018 AGM Notice**"	the 2018 AGM notice dated 27 March 2018
"**2022 Notes**"	the £450,000,000 4.125 per cent. Tier 3 subordinated notes due 2022, of which £300,000,000 were originally issued by PGH Capital
"**2027 Notes**"	the US$500,000,000 5.375 per cent. Tier 2 notes due 2027
"**Abbey Life**"	ALAC, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited
"**Abbey Life Acquisition**"	the acquisition of Abbey Life by the Company pursuant to the Abbey Life SPA
"**Abbey Life Deed of Indemnity**"	the deed of indemnity entered into on 28 September 2016 between Deutsche Bank, Deutsche Holdings No. 4 Ltd., ALAC and PLHL
"**Abbey Life Pension Scheme**"	the pension scheme relating to the former employees of Abbey Life
"**Abbey Life SPA**"	the sale and purchase agreement dated 28 September 2016 between the Company, PLHL, Deutsche Bank and Deutsche Holdings No. 4 Ltd.
"**Acquisition**"	the proposed acquisition of Standard Life Assurance from Standard Life Aberdeen
"**Acquisition Facility Agreement**"	the facility agreement entered into between the Company (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, dated 23 February 2018, as described in paragraph 12.1.6 ("*Acquisition Facility Agreement*") of Part XV ("*Additional Information*") of this document
"**Acquisition Life Companies**"	SLAL, SLIDAC and SLPF, together
"**Acquisition Shares**"	the up to 144,106,049 new Shares to be allotted and issued by the Company to Standard Life Aberdeen as part consideration pursuant to the Acquisition
"**Admission**"	admission of the New Shares, nil paid, to the premium listing segment of the Official List and to trading on the LSE's main market for listed securities
"**AGM**"	the Company's annual general meeting
"**ALAC**"	Abbey Life Assurance Company Limited
"**APS**"	AXA Portfolio Services Limited (now Elevate Portfolio Services Limited)
"**Articles**"	the seventh amended and restated memorandum and articles of association of the Company, a summary of which is set out at paragraph 4.1 ("*Seventh amended and restated memorandum and articles of association*") of Part XV ("*Additional Information*") of this document, as amended from time to time
"**Audit Committee**"	the audit committee of the Board
"**AWL**"	AXA Wealth Limited (effective until 8 December 2017 when its name changed to Phoenix AW Limited)
"**AXA SPA**"	the sale and purchase agreement dated 27 May 2016 between the Company, PLHL and AXA UK
"**AXA Transaction**"	the acquisition of the SunLife Embassy Business pursuant to the AXA SPA
"**AXA UK**"	AXA UK plc

"**Backstop Revolving Credit Agreement**"	the credit agreement entered into by the Company (as guarantor and as borrower) and The Royal Bank of Scotland plc (as agent), among others, dated 23 February 2018 and cancelled on 2 May 2018, as described in paragraph 12.1.5 ("*Backstop Revolving Credit Agreement*") of Part XV ("*Additional Information*") of this document
"**BaFin**"	the Bundesanstalt für Finanzdienstleistungsaufsicht
"**Banks**"	BofA Merrill Lynch, BNPP, HSBC and JPM
"**BNPP**"	BNP PARIBAS
"**Board**"	the board of directors of the Company
"**BofA Merrill Lynch**"	Merrill Lynch International
"**Brexit**"	the vote by the people of the United Kingdom to leave the EU in the referendum held on 23 June 2016
"**Business Day**"	a day (other than a Saturday or Sunday) on which banks are open for general business in London
"**Cashless Take-up**"	the sale of such number of Nil Paid Rights as will generate sufficient proceeds to enable the direct or indirect holder thereof to take up all of their remaining Nil Paid Rights (or entitlements thereto)
"**Cayman Registrar Agreement**"	the registrar agreement dated 2 June 2010 between the Company and the Registrar
"**CBI**"	Central Bank of Ireland
"**certificated**" or "**in certificated form**"	a share or other security which is not in uncertificated form (that is, not in CREST)
"**Chairman**"	the chairman of the Company
"**City Code**"	the UK City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers, as amended from time to time
"**Client Service and Proposition Agreement**"	the client service and proposition agreement to be entered into upon Completion between SLAL, certain subsidiaries of SLAL and certain subsidiaries of Standard Life Aberdeen, on substantially the same terms as set out in the CSPA Heads of Terms
"**Closing Price**"	the closing middle market quotation of a Share as derived from the Daily Official List published by the LSE
"**Companies Law**"	the Companies Law (as amended) of the Cayman Islands
"**Completion**"	the closing of the Acquisition pursuant to the Share Purchase Agreement
"**Computershare**" or the "**Depositary**"	Computershare Investor Services PLC
"**Court**"	the High Court in England and Wales
"**CREST**"	the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear is the operator (as defined in the CREST Regulations)
"**CREST Manual**"	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, the CREST Courier and Sorting Service Operations Manual, Daily Timetable, CREST Application Procedure, CREST Glossary of Terms and CREST Terms and Conditions (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since)

"**CREST member**"	a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations)
"**CREST Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
"**CREST sponsor**"	a CREST participant admitted to CREST as a CREST sponsor
"**CREST-sponsored member**"	a CREST member admitted to CREST as a sponsored member
"**CSPA Heads of Terms**"	the heads of terms for a client service and proposition agreement entered into by SLAL, certain subsidiaries of SLAL and certain subsidiaries of Standard Life Aberdeen, dated 23 February 2018
"**Custodian**"	the custodian nominated by the Depositary
"**Daily Official List**"	the daily record setting out the price of all trades in shares and other securities conducted on the LSE
"**DBSS**"	the Group's Deferred Bonus Share Scheme
"**Dealing Day**"	any day on which the LSE is open for business in the trading of securities admitted to the Official List
"**Deed Poll**"	the deed poll dated 2 June 2010 executed by the Depositary in favour of the holders of the Depositary Interests from time to time
"**Depositary**"	Computershare Investor Services PLC
"**Depositary Agreement**"	the agreement for the provision of depositary services and custody services in respect of the Depositary Interests dated 2 June 2010 between the Company and the Depositary
"**Depositary Interest**"	the dematerialised depositary interests issued by the Depositary in respect of and representing Shares on a one-for-one basis
"**Depositary Interest Holders**"	holders of Depositary Interests
"**Depositary Interest Register**"	the register of holders maintained in the United Kingdom on behalf of the Depositary by the Depositary Interest Registrar
"**Deutsche Bank**"	Deutsche Bank AG
"**Directors**"	the directors of Phoenix as at the date of this document or, where the context so requires, the directors of Phoenix from time to time
"**Disclosure Guidance and Transparency Rules**"	the Disclosure Guidance and Transparency Rules produced by the Financial Conduct Authority and forming part of the FCA Handbook
"**EEA**"	the European Economic Area
"**EIOPA**"	the European Insurance and Occupational Pension Authority
"**Employee Share Schemes**"	the LTIP, the Sharesave Scheme, the SIP and the DBSS
"**Enlarged Group**"	the enlarged Group following Completion
"**Enlarged Share Capital**"	the issued share capital of the Company immediately following completion of the Rights Issue or immediately following Completion, as the context requires
"**EU**" or "**European Union**"	the European Union
"**Euro**", "**euro**" or "**€**"	the lawful currency of the member states of the EU that adopted the Euro in Stage Three of the Treaty establishing the Economic and Monetary Union on 1 January 1999
"**Euroclear**"	Euroclear & Ireland Limited
"**Ex-Rights Date**"	26 June 2018
"**Excluded Overseas Shareholder**" ...	subject to certain limited exceptions, Shareholders with a registered address or located or resident in any of the Restricted Territories or Excluded Territories and, where applicable, Depositary Interest Holders with a registered address or located or resident in any of the Restricted Territories or Excluded Territories

"**Excluded Territories**"	Australia, Canada, Japan, South Africa, the United States of America and any other jurisdiction where the extension or availability of the Rights Issue (or any transaction contemplated thereby and any activities carried out in connection therewith) would breach applicable law and "**Excluded Territory**" means one of them
"**Executive Committee**"	the executive committee of PLHL that provides day-to-day direction
"**Executive Directors**"	the executive Directors as at the date of this document
"**Existing Shares**"	the existing Shares in issue immediately prior to completion of the Rights Issue or immediately prior to Completion, as the context requires
"**FCA**"	Financial Conduct Authority
"**FCA Handbook**"	the book of rules and guidance maintained by the FCA
"**FOS**"	the Financial Ombudsman Service
"**FRPRSG Bonds**"	the £500,000,000 6.75 per cent. Fixed Rate Perpetual Reset Subordinated Guaranteed Bonds originally issued by SL Finance plc, a wholly-owned subsidiary of SLAC
"**FSCS**"	the Financial Services Compensation Scheme
"**FSMA**"	the Financial Services and Markets Act 2000, as amended
"**Fully Paid Rights**"	rights to acquire New Shares or New Depositary Interests, fully paid
"**GDPR**"	the General Data Protection Regulation (EU) 2016/679
"**General Meeting**"	the general meeting of the Company to be held at Grange St. Paul's Hotel, 10 Godliman Street, London EC4V 5AJ at 11.00 a.m. on 25 June 2018, notice of which is set out in this document
"**Gilts Based Deficit**"	for the purposes of the 2012 Pensions Agreement, the scheme deficit calculated on a basis linked to UK government securities
"**Governance Code**"	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time
"**Group**"	Phoenix, together with its consolidated subsidiaries from time to time
"**Group Personal Pension**"	a standard life pension scheme operated for certain of the Group's London-based senior executives and management
"**HMRC**"	HM Revenue & Customs
"**Holding Companies**"	the Company, PLHL, PGH2, Impala, Pearl Assurance Group Holdings Limited, PGH1, PGH (LCA) Limited, PGH (LCB) Limited and PeLHL
"**HSBC**"	HSBC Bank plc
"**IASB**"	International Accounting Standards Board
"**IASB IFRS**"	IFRS, as issued by the IASB
"**ICA**"	Individual Capital Assessment
"**IFRS**"	International Financial Reporting Standards
"**IGD**"	the Directive on the supplementary supervision of insurance undertakings in an insurance group (1998/78/EC)
"**Impala**"	Impala Holdings Limited
"**Investment Management Agreement**"	the amended and restated investment management agreement between SLAL and SLI to be entered into at Completion
"**ISIN**"	International Securities Identification Number
"**Issue Price**"	518 pence per Share

"**Joint Bookrunners**" .... BofA Merrill Lynch, BNPP, HSBC and JPM

"**Joint Global Coordinators**" .... BofA Merrill Lynch, HSBC and JPM

"**JPM**" .... J.P. Morgan Securities plc (which conducts its UK investment banking business as J.P. Morgan Cazenove)

"**Latest Practicable Date**"............... 29 May 2018, being the latest practicable date prior to publication of this document

"**Lender Warrants**".......................... the warrants issued to certain entities providing finance to the Group on 2 September 2009

"**LIBOR**" .... the London Interbank Offered Rate

"**Listing Rules**"................................ the listing rules issued by the FCA pursuant to section 73A of FSMA

"**Long Stop Date**"........................... 31 December 2018, or such other date as the Company and Standard Life Aberdeen may agree in writing

"**LSE**" .... London Stock Exchange plc

"**LTIP**".. the Group's Long-Term Incentive Plan

"**LTIP Award**"................................ any of the following: a conditional share award, a share option, or an allocation of forfeitable shares or any combination of them

"**MACS**" .... the £300,000,000 6.546 per cent. Mutual Assurance Capital Securities originally issued by SL MACS (No. 2) plc

"**Market Abuse Regulation**"............ Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014

"**MCEV**" .... Market Consistent Embedded Value

"**MCR**".. minimum regulatory capital requirement

"**Memorandum**"............................... the memorandum of association of the Company, a summary of which is set out in paragraph 4.1 ("*Seventh amended and restated memorandum and articles of association*") of Part XV ("*Additional Information*") of this document

"**MiFID II**"...................................... the EU Markets in Financial Instruments Directive (2014/65/EU), as amended

"**MTM instruction**"......................... Many-to-Many instruction

"**New Depositary Interests**" .... the Depositary Interests to be issued by the Depositary following the take-up of rights to acquire Depositary Interests by Qualifying Depositary Interest Holders in connection with the Rights Issue

"**New Shares**".................................. the 183,522,385 new Shares which the Company will allot and issue pursuant to the Rights Issue, including, where appropriate, the Provisional Allotment Letters, the Nil Paid Rights and the Fully Paid Rights

"**Nil Paid Rights**"............................ rights to acquire New Shares or New Depositary Interests, nil paid

"**Nomination Committee**"................ the nomination committee of the Board

"**Non-Executive Directors**".............. the non-executive Directors as at the date of this document

"**Notice of General Meeting**".......... the notice of General Meeting set out in this document

"**NPLL**" .... National Provident Life Limited

"**Official List**" .... the Official List maintained by the Financial Conduct Authority

"**Overseas Shareholders**"................. Qualifying Shareholders with registered addresses in, or who are citizens, residents or nationals of jurisdictions outside the United Kingdom

"**Own Funds**" .... assets maintained to match the estimate of likely liabilities under insurance policies written (including annuities)

"**PA (GI)**" .... PA (GI) Limited

"**Panel**"... the UK Panel on Takeovers and Mergers

"**PD Regulation**"	Commission Regulation (EC) No 809/2004
"**Pearl Scheme**"	the pension scheme covering the past and present employees of the Group prior to the acquisition of the Resolution Group
"**PeLHL**"	Pearl Life Holdings Limited
"**Pensions Regulator**"	the Pensions Regulator, as established under section 1 of the Pensions Act 2004
"**PGH Capital**"	PGH Capital P.L.C. (formerly PGH Capital Limited)
"**PGH1**"	Pearl Group Holdings (No. 1) Limited (previously Resolution plc)
"**PGH2**"	Pearl Group Holdings (No. 2) Limited (previously Pearl Group Limited)
"**PGL Pension Scheme**"	the pension scheme covering the past and present employees of the subsidiaries of Impala and the employees of the former SunLife Embassy Business
"**PGMS**"	Pearl Group Management Services Limited
"**PGS**"	Pearl Group Services Limited
"**Phoenix**" or the "**Company**"	Phoenix Group Holdings
"**Phoenix Life**"	the Group's life insurance (including its management services operations) business segment
"**Phoenix Life Companies**"	PLL, PLAL and ALAC, and "**Phoenix Life Company**" means any one of them
"**PLAL**"	Phoenix Life Assurance Limited, which was renamed from Pearl Assurance Limited on 28 September 2012
"**PLHL**"	Phoenix Life Holdings Limited
"**PLL**"	Phoenix Life Limited
"**PLL Tier 2 Bonds**"	the £200 million 7.25 per cent. undated, unsecured subordinated notes originally issued by Scottish Mutual Assurance Limited (which was then known as Scottish Mutual Assurance plc)
"**PPFM**"	Principles and Practices of Financial Management
"**PRA**"	Prudential Regulation Authority
"**PRA Rulebook**"	the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA
"**Principal Letter**"	has the meaning given to it in paragraph 2.1.8 ("*Registration in names of persons other than originally entitled Qualifying Non-CREST Shareholders*") of Part III ("*Terms and Conditions of the Rights Issue*") of this document
"**Prospectus Directive**"	Directive 2003/71/EC, as amended, and includes any relevant implementing measures in each member state of the EEA that has implemented Directive 2003/71/EC
"**Prospectus Rules**"	the Prospectus Rules of the FCA made pursuant to section 73A of FSMA
"**Provisional Allotment Letter**"	the provisional allotment letter to be issued to Qualifying Non-CREST Shareholders (other than certain Overseas Shareholders)
"**Purchase Price Adjustment**	the adjustment to the price paid by the Company in respect of the Acquisition under the Share Purchase Agreement
"**Qualifying Depositary Interest Holders**"	Depositary Interest Holders holding Depositary Interests on the Depositary Interest Register on the Record Date
"**Qualifying Non-CREST Shareholders**"	Qualifying Shareholders holding Shares in certificated form on the share register of the Company at the Record Date including, for the avoidance of doubt, the Depositary

"**Qualifying Shareholders**"..............	Qualifying Non-CREST Shareholders and Qualifying Depositary Interest Holders
"**Re-admission**"...............................	the re-admission of the Shares, including the New Shares to be issued pursuant to the Rights Issue, to the premium listing segment of the Official List of the UKLA and to trading on the LSE's main market for listed securities
"**Receiving Agent**"..........................	Computershare Investor Services PLC
"**Record Date**"...............................	22 June 2018
"**Registrar**".....................................	Computershare Investor Services (Cayman) Limited
"**Regulatory Capital Instruments**"...	the MACS and the FRPRSG Bonds
"**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
"**Relationship Agreement**"..............	the relationship agreement to be entered into upon Completion between Standard Life Aberdeen and the Company
"**Remuneration Committee**"............	the remuneration committee of the Board
"**Resolution Group**"........................	Pearl Group Holdings (No. 1) Limited (formerly named Resolution plc) and its subsidiaries and, where the context requires, includes the on-sold assets of Pearl Group Holdings (No. 1) Limited until, in each case, the date of their disposal
"**Resolutions**".................................	the resolutions to be proposed at the General Meeting in connection with the Acquisition and Rights Issue
"**Restricted Territories**"..................	member states of the EEA (excluding the UK), Hong Kong and Singapore, and "**Restricted Territory**" means any one of them
"**Revolving Credit Agreement**"........	the credit agreement entered into by the Company (as guarantor and, from 28 February 2017, as borrower), PGH Capital (as borrower) and Commerzbank Finance & Covered Bond S.A. (formerly known as Commerzbank International S.A.) (as agent), among others, dated 23 July 2014, as amended and/or restated from time to time, including on 21 March 2016, 24 October 2016, 20 February 2017, 30 March 2017 and 2 May 2018, as described in paragraph 12.1.4 ("*Revolving Credit Agreement*") of Part XV ("*Additional Information*") of this document
"**Rights Issue**"................................	the offer by way of rights to Qualifying Shareholders to subscribe for New Shares and/or New Depositary Interests, on the terms and conditions set out in this document and, in the case of Qualifying Non-CREST Shareholders only, the Provisional Allotment Letter
"**Rights Issue Entitlement**".............	the entitlement of Qualifying Non-CREST Shareholders and Qualifying Depositary Interest Holders to New Shares and New Depositary Interests, respectively, pursuant to the Rights Issue
"**Risk Committee**"..........................	the risk committee of the Board
"**RMF**"..	the Group's Risk Management Framework
"**RT1 Notes**"..................................	the £500,000,000 fixed rate reset perpetual restricted tier 1 write down notes issued by the Company
"**RTGS**"..	real time gross settlement system
"**SCR**"...	solvency capital requirement
"**SDRT**"...	stamp duty reserve tax
"**SEDOL**"......................................	Stock Exchange Daily Official List
"**Senior Bonds**"...............................	the £300 million senior unsecured 5.75 per cent. bonds originally issued by PGH Capital

"**Senior Managers**"	the senior managers whose names are set out in paragraph 5.4 ("*Senior Managers*") of Part XV ("*Additional Information*") of this document
"**Share Purchase Agreement**"	the share purchase agreement entered into between Phoenix and Standard Life Aberdeen in connection with the Acquisition, dated 23 February 2018, as amended and restated on 28 May 2018
"**Shareholder Capital Coverage Ratio**"	the Solvency II shareholder capital coverage ratio
"**Shareholders**"	the holders of Shares from time to time, and "**Shareholder**" means any one of them (including, for the avoidance of doubt and unless the context otherwise indicates, Depositary Interest Holders)
"**Shares**"	ordinary shares of €0.0001 each in the share capital of the Company or Depositary Interests in respect thereof
"**Sharesave Scheme**"	the Group's Sharesave Plan
"**SIP**"	the Group's Share Incentive Plan
"**SLAC**"	Standard Life Assurance Company 2006
"**SLAL**"	Standard Life Assurance Limited
"**SLAL Deed of Indemnity**"	the deed of indemnity to be entered into between Phoenix, Standard Life Aberdeen and SLAL on Completion
"**SLAL Newco**"	Standard Life Assets and Employee Services Limited, a newly-incorporated subsidiary of SLAL
"**SLESL**"	Standard Life Employee Services Limited
"**SLIDAC**"	Standard Life International Designated Activity Company
"**SLPF**"	Standard Life Pension Funds Limited
"**Solvency Accounting Policies**"	the Company's basis of Solvency II reporting expected to be applied by the Company for the year ending 31 December 2018
"**Solvency II**"	the Directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC) and implementation measures in respect thereof, establishing a new regime in relation to solvency requirements and other matters affecting the financial strength of insurers and reinsurers in the EU
"**Solvency II Internal Model**"	the agreed methodology and model, approved by the PRA, to calculate the Group SCR pursuant to Solvency II
"**Solvency II Surplus**"	the excess of Solvency II Own Funds over the SCR
"**Special Dealing Service**"	the dealing service being made available by Computershare to Qualifying Non-CREST Shareholders who are individuals with a registered address in the United Kingdom or any other member state of the EEA who wish to sell all of their Nil Paid Rights or to effect a Cashless Take-up
"**Sponsor**"	HSBC
"**Sponsor and Underwriting Agreement**"	the sponsor and underwriting agreement dated 30 May 2018 between the Company and the Banks
"**Standard Life Aberdeen**"	Standard Life Aberdeen plc
"**Standard Life Assurance**"	Standard Life Assurance Limited (to include Vebnet (Holdings) Limited and exclude certain subsidiaries of SLAL following a pre-Completion restructuring)

"**sterling**" or "**Sterling**" or "**£**" or "**pence**" or "**p**"	the lawful currency of the United Kingdom
"**Subordinated Bonds**"	the £428,113,000 6.625 per cent. Guaranteed Subordinated Bonds due 2025 originally issued by PGH Capital
"**Sun Life**"	AXA Sun Life Direct Limited (now Phoenix SL Direct Limited)
"**SunLife Embassy Business**"	AWL's pensions and protection businesses
"**SunLife Embassy Companies**"	AXA UK, Winterthur Life UK Holdings Limited (now Phoenix Wealth Holdings Limited) and Sun Life
"**Tax Deed**"	the deed of tax covenant to be entered into between Phoenix and Standard Life Aberdeen on Completion
"**TM Licence Heads of Terms**"	the form of heads of terms for a trade mark licence agreed between Phoenix and Standard Life Aberdeen on 23 February 2018
"**Trade Mark Licence Agreement**"	the long-form trade mark licence agreement to be entered into by SLESL (as licensor) and SLAL (as licensee) on or after Completion
"**Transitional Services Agreement**"	the transitional services agreement to be entered into between SLESL, SLAL and/or SLAL Newco upon completion, on substantially the same terms as set out in the TSA Heads of Terms.
"**TSA Heads of Terms**"	the form of heads of terms for a transitional services agreement agreed between Phoenix and Standard Life Aberdeen on 23 February 2018
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UKCPT**"	UK Commercial Property Trust Limited
"**UKLA**"	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
"**Unaudited Pro Forma IFRS Financial Information**"	the unaudited pro forma IFRS income statement and unaudited pro forma statement of IFRS net assets of the Enlarged Group set out in Part XI ("*Unaudited Pro Forma IFRS Financial Information*") of this document
"**Unaudited Pro Forma Solvency Information**"	the unaudited pro forma statement of Group Solvency II Surplus of the Enlarged Group set out in Part XII ("*Unaudited Pro Forma Solvency Information of the Enlarged Group*") of this document
"**uncertificated**" or "**in uncertificated form**"	recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
"**US**" or "**United States**"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"**US Exchange Act**"	the United States Securities Exchange Act 1934, as amended
"**US Investment Company Act**"	the United States Investment Company Act of 1940, as amended
"**US Securities Act**"	the United States Securities Act of 1933, as amended
"**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
"**Volcker Rule**"	Section 619 of the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010

NOTICE OF GENERAL MEETING

Phoenix Group Holdings

(a company incorporated as an exempted company with limited liability under the laws of the Cayman Islands with registered number 202172)

Notice is hereby given that a general meeting of Phoenix Group Holdings (the "**Company**") will be held at 11.00 a.m. on 25 June 2018 at Grange St. Paul's Hotel, 10 Godliman Street, London EC4V 5AJ (the "**General Meeting**") to consider and, if thought fit, to pass the following resolutions 1 to 4, which will be proposed as ordinary resolutions, and resolutions 5 to 7, which will be proposed as special resolutions:

ORDINARY RESOLUTIONS

THAT:

1. The proposed acquisition by the Company of Standard Life Assurance Limited, as described in the combined circular and prospectus to the shareholders of the Company ("**Shareholders**") dated 30 May 2018, substantially on the terms and subject to the conditions set out in the share purchase agreement between the Company and Standard Life Aberdeen plc dated 23 February 2018 (as amended, modified, restated or supplemented from time to time) (the "**Acquisition**") be and is hereby approved.

   The directors of the Company (the "**Directors**") be and are hereby authorised to take all necessary or appropriate steps and to do all necessary or appropriate things to implement, complete or to procure the implementation or completion of the Acquisition and give effect thereto with such modifications, variations, revisions, waivers or amendments (not being modifications, variations, revisions, waivers or amendments of a material nature in the context of the Acquisition taken as a whole) as the Directors may deem necessary, expedient or appropriate in connection with the Acquisition.

2. Subject to and conditional on the passing of Resolution 1 above and pursuant to Article 14(b) of the Seventh Amended and Restated Memorandum and Articles of Association of the Company, the Directors be generally and unconditionally authorised to allot and issue equity securities in connection with the Rights Issue, on the following terms:

   (a) such authority to allot and issue equity securities shall be for a period expiring at the conclusion of the annual general meeting of the Company to be held in 2019;

   (b) for the purposes of paragraph (a) of the definition of "second prescribed amount" in Article 13 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company, the amount stated as such shall be a nominal amount of €18,352 (representing 183,522,385 ordinary shares with a nominal value of €0.0001 each in the share capital of the Company (each, an "**Ordinary Share**"));

   (c) unless previously renewed, revoked or varied by the Company, such authority to allot and issue equity securities shall extend to the making before the expiry of such authority of an offer or an agreement that would or might require equity securities to be allotted after such expiry and the Directors may allot and issue equity securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired; and

   (d) such authority applies in addition to the existing authority granted by ordinary resolution 16 passed by the Shareholders at the Company's annual general meeting held on 2 May 2018 (the "**2018 AGM**").

3. Subject to and conditional on the passing of Resolutions 1 and 2 above and pursuant to Article 14(a) of the Seventh Amended and Restated Memorandum and Articles of Association of the Company, the Directors be generally and unconditionally authorised to allot and issue equity securities to Standard Life Aberdeen plc in connection with the Acquisition, on the following terms:

   (a) such authority to allot and issue equity securities shall be for a period expiring at the conclusion of the annual general meeting of the Company to be held in 2019;

(b) for the purposes of paragraph (a) of the definition of "first prescribed amount" in Article 13 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company, the amount stated as such shall be a nominal amount of up to €14,411 (representing up to 144,106,049 Ordinary Shares);

(c) unless previously renewed, revoked or varied by the Company, such authority to allot and issue equity securities shall extend to the making before the expiry of such authority of an offer or an agreement that would or might require equity securities to be allotted after such expiry and the Board of Directors may allot and issue equity securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired; and

(d) such authority applies in addition to the existing authority granted by ordinary resolution 16 passed by the Shareholders at the 2018 AGM.

4. Subject to and conditional on (i) the passing of Resolutions 1, 2 and 3 above, (ii) completion of the Acquisition ("**Completion**") having taken place and (iii) the 183,522,385 new Ordinary Shares to be issued pursuant to the Rights Issue (the "**New Shares**") and the new Ordinary Shares up to 144,106,049 to be allotted and issued by the Company to Standard Life Aberdeen plc as part consideration pursuant to the Acquisition (the "**Acquisition Shares**") being re-admitted to the premium listing segment of the Official List of the UK Listing Authority and re-admitted to trading on the main market for listed securities of the London Stock Exchange ("**Re-admission**") and in addition to any authority granted pursuant to Resolutions 2 and 3 above but in substitution for the authority granted pursuant to resolution 16 passed at the 2018 AGM, the Directors be generally and unconditionally authorised to allot and issue equity securities pursuant to Article 14 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company for a period expiring at the conclusion of the annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018 AGM) and for that period and purpose the prescribed amounts in respect of the Company's equity securities, for the purposes of paragraph (a) of the definition of each of "first prescribed amount" and "second prescribed amount" in Article 13 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company, shall be respectively:

(a) an aggregate nominal amount of €24,030 (representing 240,296,896 Ordinary Shares) (such amount to be reduced by the nominal amount of any Ordinary Shares allotted under paragraph (b) below in excess of €24,030); and

(b) an aggregate nominal amount of €48,059 (representing 480,593,792 Ordinary Shares) (such amount to be reduced by any Ordinary Shares allotted under paragraph (a) above) in connection with an offer by way of a pre-emptive issue,

unless previously renewed, revoked or varied by the Company, and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTIONS

THAT:

5. Subject to and conditional on (i) the passing of Resolutions 1, 2, 3 and 4 above, (ii) Completion having taken place and (iii) Re-admission having taken place and in addition to any authority granted pursuant to Resolutions 2 and 3 above but in substitution for the authority granted pursuant to resolution 17 passed at the 2018 AGM, the Directors be authorised to allot equity securities for cash pursuant to the power conferred by Article 16 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company provided that:

(a) the maximum aggregate nominal amount of equity securities that may be allotted or sold pursuant to the authority under Article 16(b) of the Seventh Amended and Restated Memorandum and Articles of Association of the Company is the sum of €3,604, representing approximately 5 per cent. of the Company's enlarged share capital following Completion; and

(b) unless previously renewed, revoked or varied by the Company, the authority conferred by this Resolution shall expire at the conclusion of the next annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018 AGM) and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

6. Subject to and conditional on (i) the passing of Resolutions 1, 2, 3 and 4 above, (ii) Completion having taken place and (iii) Re-admission having taken place and in addition to any authority granted under Resolution 2, 3 and 5 above but in substitution for the authority granted pursuant to resolution 18 passed at the 2018 AGM, the Directors be authorised to allot equity securities for cash pursuant to the power conferred by Article 16 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company provided that:

(a) the maximum aggregate nominal amount of equity securities that may be allotted or sold pursuant to the authority under Article 16(b) of the Seventh Amended and Restated Memorandum and Articles of Association of the Company is the sum of €3,604, representing approximately 5 per cent. of the Company's enlarged share capital following Completion;

(b) any allotment of equity securities under this Resolution shall be used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice; and

(c) unless previously renewed, revoked or varied by the Company, the authority conferred by this Resolution shall expire at the conclusion of the next annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018 AGM) and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

7. Subject to and conditional on (i) the passing of Resolutions 1, 2 and 3 above, (ii) Completion having taken place and (iii) Re-admission having taken place and in substitution for the authority granted pursuant to resolution 19 passed at the 2018 AGM, subject to compliance with the Cayman Islands Companies Law (as amended), and subject to and conditional on (i) Completion having taken place and (ii) Re-admission having taken place, the Company be and is hereby generally and unconditionally authorised, in accordance with Article 20 of the Seventh Amended and Restated Memorandum and Articles of Association of the Company and section 37 of the Cayman Islands Companies Law (as amended), to make one or more market purchases of Ordinary Shares in the issued ordinary share capital of the Company:

(a) such authority to be limited:

(i) to a maximum aggregate number of 72,089,069 Ordinary Shares;

(ii) by the condition that the maximum price which may be paid for each Ordinary Share is €0.0001 and the maximum price which may be paid for an Ordinary Share is the highest of:

(A) an amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

(B) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out,

in each case exclusive of expenses;

(b) such authority shall, unless renewed, varied or revoked prior to such time, expire at the conclusion of the next annual general meeting of the Company to be held in 2019 (or, if earlier, at the close of business on the date which is 15 months after the date of the 2018

AGM) save that the Company may before such expiry make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred which would or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts as if the power conferred hereby had not expired; and

(c) all Ordinary Shares purchased pursuant to said authority shall be either:

(i) cancelled immediately upon completion of the purchase; or

(ii) subject to compliance with the Cayman Islands Companies Law (as amended) be held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Cayman Islands Companies Law (as amended).

By order of the board of directors of the Company

Gerald Watson
Group Company Secretary

30 May 2018

Registered office:

c/o Maples Corporate Services Limited
Po Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

NOTES TO THE NOTICE OF GENERAL MEETING

Entitlement to vote

Shareholders registered on the Company's register of members at 6.00 p.m. on 22 June 2018 (the "**Record Date**") are entitled to attend and vote at the General Meeting. Holders of depositary interests may also attend the General Meeting and vote in person as set out below. A shareholder may vote in respect of the number of Ordinary Shares registered in the shareholders' name on the Record Date. Changes to the entries in the register of members after the Record Date shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Voting in person or by proxy for shareholders

Shareholders may either vote in person or appoint a proxy to exercise their voting rights at the General Meeting. A shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights to a different Ordinary Share or Ordinary Shares held by that shareholder. A proxy need not be a shareholder of the Company. The appointment of a proxy does not preclude a shareholder from attending the General Meeting and voting in person. A proxy form is enclosed with this document and instructions for its completion are shown on the form. Proxy appointments may be made by completing and returning the enclosed form of proxy to Computershare Investor Services (Cayman) Limited (the "**Registrars**") c/o Computershare Investor Services PLC ("**CIS**") (the "**Depositary**"), The Pavilions, Bridgwater Road, Bristol BS99 6ZY by 11.00 a.m. on the Record Date (22 June 2018), together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power of attorney or other authority.

A shareholder must inform the Registrars in writing of any termination of the authority of a proxy.

Shareholders may lodge their votes electronically by visiting the website www.investorcentre.co.uk/eproxy (the on-screen instructions will give details on how to complete the instruction process).

Voting in person or by instruction for holders of Depositary Interests

Form of Instruction for holders of Depositary Interests representing shares held through Computershare Company Nominees Limited ("CCN")

In order to ensure that the Ordinary Shares in which you hold an interest are voted in accordance with your instructions at the General Meeting:

- you can vote by signing and returning the enclosed form of instruction to the Depositary, CIS, as soon as possible, but not later than 11.00 a.m. on 21 June 2018. CCN will appoint the Chairman of the meeting to vote the Ordinary Shares in which you hold an interest as you instruct on the Form of Instruction. If you sign and return the Form of Instruction, but do not give instructions on how to vote your Ordinary Shares, your Ordinary Shares will not be voted; or
- you can vote via the website www.investorcentre.co.uk/eproxy by not later than 11.00 a.m. on 21 June 2018. CCN will appoint the Chairman of the meeting to vote the Ordinary Shares in which you hold an interest as you instruct via www.investorcentre.co.uk/eproxy (the on-screen instructions will give details on how to complete the instruction process); or
- in the case of CREST members, you can vote by utilising the CREST electronic proxy appointment services in accordance with procedures set out below; or
- you can attend the General Meeting and vote in person (or appoint another person to vote on your behalf). If you wish to attend the meeting, you must register with CIS before 11.00 a.m. on 21 June 2018. If you properly register before 11.00 a.m. on 21 June 2018, and attend the General Meeting in person, CCN will provide you in advance of, or at, the General Meeting with a Letter of Representation necessary for you to vote the shares in which you hold an interest at the General Meeting in person. Once you have been provided with a Letter of Representation by CCN, you may cast your vote in respect of your shares at the General Meeting.

Electronic voting instructions via the CREST voting system

Depositary Interest holders who are CREST members and who wish to issue an Instruction through the CREST electronic voting appointment service may do so by using the procedures described in the CREST Manual (available from www.euroclear.com/CREST). CREST personal members or other

CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting services provider(s), who will be able to take the appropriate action on their behalf.

In order for instructions made using the CREST service to be valid, the appropriate CREST message (a "**CREST Voting Instruction**") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited ("**EUI**") and must contain the information required for such instructions, as described in the CREST Manual.

The message, regardless of whether it relates to the voting instruction or to an amendment to the instruction given to the Depositary must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) not later than 11.00 a.m. on 21 June 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST Voting Instruction by the CREST applications host) from which the issuer's agent is able to retrieve the CREST Voting Instruction by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the transmission of CREST Voting Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that the CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a CREST Voting Instruction is transmitted by means of the CREST service by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Voting Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

You may not use any electronic address provided in this document to communicate with the Company for any purposes other than those expressly stated.

Corporate representatives

Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on behalf of the corporation the same powers as the corporation could exercise if it were an individual shareholder of the Company, provided that they do not do so in relation to the same shares.

Nominated persons

Any person to whom the Notice of General Meeting is sent who is a person nominated under Article 218 of the Seventh Amended and Restated Memorandum and Articles of Association to enjoy information rights (a "**Nominated Person**") may have a right, under an agreement between him or her and the shareholder by whom he or she was nominated, to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statements of the rights of shareholders in relation to the appointment of proxies on the first page of these Notes to the Notice of General Meeting do not apply to Nominated Persons. The rights described on the first page of these Notes to the Notice of General Meeting can only be exercised by shareholders of the Company.

Issued share capital and total voting rights

As at 29 May 2018 (being the latest practicable date prior to publication of this document), the Company's issued ordinary share capital consisted of 393,262,255 Ordinary Shares.

Shareholders are entitled to attend and vote at general meetings of the Company. On a vote by show of hands, every shareholder who is present has one vote and every proxy present who has been duly appointed by a shareholder entitled to vote has one vote. On a vote by poll every shareholder who is present in person or by proxy has one vote for every Ordinary Share held.

The total voting rights in the Company as at 29 May 2018 (being the latest practicable date prior to publication of this document) were 393,262,255.

Questions at the meeting

A shareholder attending the meeting has the right to ask questions in relation to the business of the meeting. Any such question relating to the business being dealt with at the meeting will be addressed but no such answer need be given if:

(i) to do so would interfere unduly with the proceedings of the meeting or involve the disclosure of confidential information;

(ii) the answer has already been given on a website in the form of an answer to a question; or

(iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Inspection of documents

Copies of the following documents will be available for inspection at the General Meeting venue from 15 minutes before the commencement of the General Meeting until its conclusion:

1. a copy of the combined circular and prospectus of the Company dated 30 May 2018; and
2. a copy of the Company's Seventh Amended and Restated Memorandum and Articles of Association.

Website

A copy of the notice is available on the Company's website:

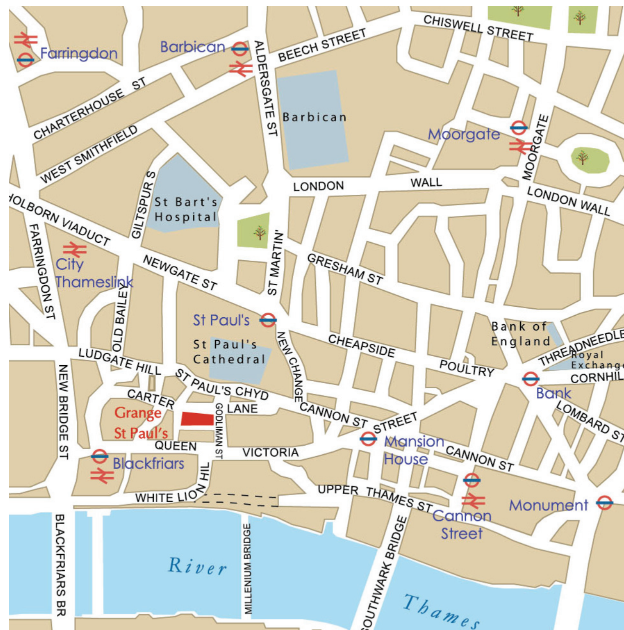
http://www.thephoenixgroup.com/investor-relations/agm-and-egm/

Contact

Computershare Investor Services PLC, the Depositary and Agent for the Registrar, at The Pavilions, Bridgwater Road, Bristol BS99 6ZY. Tel: +44 (0)370 707 4040.

Map and Directions

Directions to the General Meeting venue,
Grange St. Paul's Hotel, 10 Godliman Street, London EC4V 5AJ



From St. Paul's underground station (Central Line)

Turn right and walk down New Change
(St. Paul's Cathedral will be on your right, One New Change shopping centre on your left)
Keep walking until you reach Cannon Street
Turn right and walk along Cannon Street (with St. Paul's Cathedral on your right)
Turn left just after the City of London Information Centre and walk down Godliman Street
The venue is on your right-hand side, just past Carter Lane

From Blackfriars station (District & Circle)

Exit onto Queen Victoria Street and continue towards Bank (passing The Blackfriar pub on your left)
Continue along Queen Victoria Street
Turn left onto Godliman Street (opposite St Benet Paul's Wharf Church)
The venue is on your left-hand side, just past Knightrider Street

From Bank station (Waterloo & City, Northern, Central, DLR)

Exit onto Cheapside, towards St. Paul's Cathedral
Continue along Cheapside until you get to St. Paul's underground station
Follow above directions from St. Paul's underground station

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