PHOENIX GROUP

Phoenix Group Holdings plc: Acquisition announcement 6 December 2019

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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

FOR IMMEDIATE RELEASE

Proposed acquisition of ReAssure Group plc

The Board of Phoenix Group Holdings plc ("Phoenix" or the "Company" and, together with its subsidiaries, the "Group") is pleased to announce the proposed acquisition of ReAssure Group plc ("ReAssure"), a leading life insurance closed book consolidator in the United Kingdom (the "Acquisition").

Acquisition Highlights

- Confirms Phoenix as Europe's largest life and pensions consolidator.
- Total consideration of £3.2 billion to Swiss Re Group ("Swiss Re") and MS&AD Insurance Group Holdings, Inc. ("MS&AD"), the shareholders in ReAssure, satisfied through a mixture of cash and shares issued to Swiss Re, part of which will be transferred to MS&AD.
- Acquisition expected to generate additional cash flows(1) of approximately £7.0 billion over time, of which approximately £2.7 billion is expected to be generated between 2020 and 2023 and a further £4.3 billion from 2024 onwards.
- Cost and capital synergies of £800 million expected by leveraging Phoenix's highly efficient operating model and approach to capital management.
- Acquisition to add £84 billion of assets under administration(2) and approximately 4.1 million policies(3).
- Meets acquisition criteria, enhances all of Phoenix's key attributes of cash, resilience and growth and supports a proposed 3% increase in the dividend.

Compelling Strategic Rationale and Significant Financial Benefits

- **Confirms Phoenix as Europe's largest life and pensions consolidator:** The Acquisition brings additional scale to Phoenix's Heritage business, creating an enlarged Group with £329 billion of assets under administration(2,4) and 14.1 million policies(3,4), confirming Phoenix's position as the largest life and pensions consolidator in Europe.

- **Additional long-term cash generation supports increased dividend:** The Acquisition is expected to generate a total of £7.0 billion of additional aggregate cash flows taking total long-term cash generation(1) of the enlarged Group to £19.0 billion. This additional cash generation supports a proposed 3% increase in the dividend per share, payable from and including the 2020 final dividend.

- **Maintains balance sheet strength and resilience:** The Group's estimated Solvency II Surplus as at 30 September 2019 is expected to increase from £3.0 billion(5) to £4.2 billion on a pro-forma basis(6) giving a Shareholder Capital Coverage Ratio(7) of 148%. This will increase by Completion from the delivery of expected synergies and planned hedging actions.

- **Significant expected cost and capital synergies:** The integration of ReAssure is expected to create synergies net of integration costs of £800 million. These synergies include annual post-tax cost savings of £40 million per annum by 2023, valued at £400 million, and non-recurring capital synergies of £450 million. Post-tax integration costs are estimated at £50 million.

- **Attractive transaction pricing:** The total consideration payable of £3.2 billion represents 91% of ReAssure's pro-forma Solvency II Own Funds of £3.5 billion(8) as at 30 September 2019 before cost and capital synergies.

- **Efficient financing structure:** The total consideration of £3.2 billion will be financed through: (a) a cash consideration of £1.2 billion funded through a combination of debt facilities and own cash resources, and (b) the issuance to Swiss Re of shares in Phoenix with a value of £2.0 billion, part of which will be transferred to MS&AD. The proposed financing structure results in a pro-forma Group Fitch leverage ratio of 30%, within the target range of 25-30%.

- **Growth opportunities are enhanced:** Phoenix has a range of opportunities for growth including Bulk Purchase Annuities, new Open Business in the UK and Europe and further M&A in the UK, Germany and Ireland. The Acquisition brings increased cash flows, skills and scale which will benefit these growth options and bring further sustainability to Phoenix's long-term cash generation.

- **Clear and transparent transaction governance structure for all strategic shareholders:** Following the Acquisition, each of Swiss Re and MS&AD will have strategic shareholdings totalling approximately 28% of the enlarged Phoenix Group. While the total shareholding of Swiss Re and MS&AD will be fixed at approximately 28% of the enlarged Phoenix Group, the anticipated shareholding of Swiss Re will be in the range of 13% to 17% and the anticipated shareholding of

MS&AD will be in the range of 11% to 15%, depending on Phoenix's share price at Completion. Each of Swiss Re and MS&AD will be invited to appoint one Non-Executive Director to the Phoenix Group Board for as long as their respective shareholdings are 10% or more of the share capital of the enlarged Phoenix Group and will otherwise benefit from the same governance rights as Standard Life Aberdeen. On a pro-forma basis, taking into account the shares issued as a part of the transaction, Phoenix's strategic partner and current largest shareholder, Standard Life Aberdeen, will have an ownership stake of c.14.5% and continue to have the right to appoint one Non-Executive Director to the Phoenix Group Board.

Commenting on the Acquisition, the Group's CEO, Clive Bannister, said:

"This is a highly attractive acquisition for Phoenix that follows our growth strategy and delivers value to our shareholders. The acquisition will contribute £7 billion of incremental cash generation and give us the opportunity to capture significant cost and capital synergies. The purchase price, at 91% of ReAssure's pro-forma Solvency II Own Funds, is attractive; as is the efficient financing structure. Together, this enables us to maintain our balance sheet strength.

The deal confirms Phoenix's position as Europe's largest life and pensions consolidator with £329 billion of assets under administration and 14.1 million policies and will give us an enhanced platform to pursue further growth opportunities, including Bulk Purchase Annuities. We also welcome Swiss Re and MS&AD as significant new shareholders and see their investment as a recognition of the many benefits that this combination can bring."

Commenting on the Acquisition, Christian Mumenthaler, Group CEO, Swiss Re said:

"We are pleased to have found a strong buyer for ReAssure Group plc, delivering on our stated objective of deconsolidating this business. Phoenix is a natural acquirer of ReAssure and has a proven track record of delivering value to both shareholders and customers. We look forward to working with Phoenix and supporting them in achieving their vision of being Europe's Leading Life Consolidator."

Commenting on the Acquisition, Keith Skeoch, CEO, Standard Life Aberdeen, said:

"Today's announcement by Phoenix illustrates the substantial consolidation opportunities that exist within the UK and European insurance sectors which was a key factor in our making our strategic investment in Phoenix.

As a leading provider of investment solutions to both Phoenix and ReAssure we will be working with Phoenix to understand the additional opportunities that the proposed acquisition creates for Standard Life Aberdeen."

Transaction Timetable

Due to its size, the Acquisition is subject to the requirements of a Class 1 transaction, under the Listing Rules, including being conditional upon the approval of Phoenix's shareholders. The issue of Phoenix's ordinary shares as consideration (the "Consideration Shares") will require a prospectus in order to admit the Consideration Shares to the premium listing segment of the Official List. In addition, the Acquisition is subject to the satisfaction of other conditions including receipt of regulatory and anti-trust approvals.

Phoenix currently expects to publish a combined shareholder circular and prospectus (the “Circular and Prospectus”) for the Acquisition in the first quarter of 2020. Completion of the Acquisition is targeted for mid-2020.

Webcast and Conference Call

A presentation for analysts and investors will be held today, 6 December 2019, at 9.30 a.m. (GMT) at Bank of America, 2 King Edward Street, London, EC1A 1HQ, with tea and coffee served from 9.00 a.m.

A link to a live webcast of the presentation, with the facility to raise questions, and a copy of the presentation will be available at www.thephoenixgroup.com/investor-relations.

To register for the live webcast please go to:
https://secure.emincote.com/client/phoenix/phoenix051

To register for the conference call please go to:
https://secure.emincote.com/client/phoenix/phoenix051/vip_connect
A replay of the presentation will also be available through the website.

The person responsible for arranging for the release of this announcement on behalf of Phoenix is Gerald Watson.

Enquiries

Investors:
Phoenix Group
Claire Hawkins, Head of Investor Relations
+44 (0) 20 3735 0575

BofA Securities (Lead Financial Advisor)
Matt Cannon, Arif Vohra, Fraser Allan, Oliver Elias, Tom Brown
+44 (0) 20 7628 1000

Citigroup (Joint Financial Advisor)
David Wormsley, Nicolas Desombre, Sian Evans, Robert Redshaw, Henri Angelo
+44 (0) 20 7986 4000

HSBC (Sole Sponsor, Corporate Broker, and Joint Financial Advisor)
Anthony Parsons, Graeme Lewis, Simon Alexander, Sam Barnett, Shashank Bhalla
+44 (0) 20 7991 8888

J. P. Morgan Cazenove (Corporate Broker)
Ed Squire
+44 (0) 20 7742 4000

Media:

Phoenix Group
Shellie Wells, Head of Corporate Communications
+44 (0) 20 3735 0922

Maitland
Neil Bennett
+44 (0) 20 7379 5151

Recent Phoenix trading update

Phoenix hosted a Capital Markets Day on 28 November 2019. The purpose of the event was to provide greater insight into how Phoenix manages its in-force business for cash and resilience. In addition, management outlined the range of options for growth across its Open and Heritage businesses to bring increasing sustainability to long-term cash generation.

Alongside this, Phoenix announced a trading update:

- £707 million of cash generation(9) in 2019 (2018: £664 million), exceeding the upper end of the 2019 cash generation target range of £600 million to £700 million(10).
- Solvency II surplus of £3.0 billion(5) as at 30 September 2019, unchanged from 30 June 2019(11) and Shareholder Capital Coverage Ratio(7) of 156% as at 30 September 2019 (160% as at 30 June 2019).
- £440 million of incremental long-term cash generation from new business comprising:
  - £205 million of new Open business in the 9 months ended 30 September 2019 (9 months ended 2018 pro-forma(12): £220 million).
  - £235 million from £1.1 billion of Bulk Purchase Annuity liabilities contracted year to date (FY 2018: £250 million incremental long-term cash generation from £0.8 billion of contracted liabilities).
- £1.1 billion of illiquid assets sourced year to date with an average credit rating of A+, delivering a £116 million Solvency II benefit. This takes the allocation of illiquid assets backing

annuity liabilities to 25%.

- Phoenix recently confirmed an enlarged partnership with leading technology and service provider Tata Consultancy Services to support delivery of its Hybrid Customer Services and IT operating model, the final phase of its Standard Life Assurance businesses transition programme.
- Phoenix remains on track to deliver the £1.2 billion total synergy target for the Standard Life Assurance businesses transition which is progressing to plan.
- Phoenix continues to meet or exceed all customer service metrics.

Phoenix anticipates releasing its Full Year 2019 Results on 9 March 2020.

Information on ReAssure

ReAssure is a leading life insurance closed book consolidator in the United Kingdom, with approximately 3.0 million policies as at 1 November 2019, £44 billion of assets under administration as at 30 September 2019 and Solvency II Own Funds(8) of £3.6 billion as at 30 September 2019. The Group focuses exclusively on the acquisition and management of closed books. It does not write new business, other than offering increments on current policies to existing customers on a passive basis.

The Solvency II Own Funds(8) of £3.6 billion at 30 September 2019 represent a £0.7 billion increase since the 31 December 2018 position. This increase was driven by £0.1 billion surplus emergence together with favourable variances from modelling and assumption changes and market movements of £0.3 billion and £0.3 billion respectively. An additional £0.2 billion benefit is attributable to the assumed dynamic recalculation of transitionals. Offsetting these positive variances are ReAssure Group costs and tax charges of £0.2 billion.

In December 2017, ReAssure entered into an agreement to acquire the mature savings business of the L&G Group Business, comprising principally retail customers who hold traditional insurance based pensions and investment products, with assets pre-completion of approximately £30 billion. Additionally, in August 2019, ReAssure announced the acquisition of Old Mutual Wealth Life Assurance Limited from Quilter plc, for a total consideration of £425 million. The acquired policies and assets of Old Mutual Wealth Life Assurance Limited and L&G Group Business are expected to be transferred to ReAssure on 31 December 2019 and in the first half of 2020, respectively. Calculated on a post-transferred basis, ReAssure would have had approximately 4.1 million policies(3) and £84 billion of assets under administration(2). Completion of these two transactions would reduce ReAssure's Solvency II Own Funds(8) by £0.1 billion to £3.5 billion.

ReAssure has two principal operating subsidiaries, ReAssure Limited, and Ark Life Assurance

Company, which conduct ReAssure's UK and Irish operations, respectively. ReAssure has another key operating subsidiary, ReAssure UK Services Limited, a management service company which provides administration services required by ReAssure Limited, and other third-party insurance companies. ReAssure Limited is authorised by the PRA and is regulated by both the PRA and the FCA. ReAssure UK Services Limited is regulated by the FCA, and Ark Life Assurance Company is authorised and regulated by the CBI in Ireland.

For the financial year to 31 December 2018 ReAssure's Profit Before Tax was £164 million(13) and its Gross Assets as at 31 December 2018 were £56.8 billion(14).

Principal Terms of the Acquisition

Share Purchase Agreement

The Share Purchase Agreement (the "SPA") dated 6 December 2019 between Phoenix and Swiss Re provides for the acquisition by Phoenix of the entire issued share capital of ReAssure from Swiss Re. Swiss Re will enter into a separate share purchase agreement with MS&AD that provides for the transfer to Swiss Re of MS&AD's entire shareholding in ReAssure prior to completion of the SPA in consideration for the transfer to MS&AD of part of the consideration received by Swiss Re from Phoenix under the SPA. The SPA is subject to the satisfaction of conditions including receipt of Phoenix shareholder approval, regulatory and anti-trust approvals.

Relationship Agreement

Each of Swiss Re and MS&AD has agreed the terms of a Relationship Agreement to be entered into with Phoenix once it becomes the holder of 10% or more of the share capital of the enlarged Phoenix Group. The Relationship Agreements will govern the relationship between Phoenix and Swiss Re and between Phoenix and MS&AD, and will ensure that the enlarged Phoenix Group carries on as an independent business and complies with its obligations under the Listing Rules. Under the Relationship Agreements, Swiss Re and MS&AD will each have the right to appoint one Non-Executive Director to the Phoenix Group Board for so long as it holds 10% or more of the share capital of the enlarged Phoenix Group. Subject to certain exceptions, each of Swiss Re and MS&AD will agree in their respective Relationship Agreement to a 12-month lock-up and a two-year standstill following Completion (except in respect of its shares under management).

Financial Impact of the Acquisition

The Acquisition will bring to the Group an additional £84 billion of assets under administration(2) and approximately 4.1 million policies[(3)], based on ReAssure's position and assuming the completion of the Part VII transfer of the mature savings business of the L&G Group and the acquisition of Old Mutual Wealth Life Assurance Limited from Quilter plc. This will result in an increase in Phoenix's existing total life company assets under administration to £329 billion[(2,4)] and create a Group with 14.1 million policies[(3,4)].

In March 2019, the Company announced cash generation targets, excluding the impact of the Acquisition, of £3.8 billion for the years 2019 to 2023, with a further £8.2 billion of cash generation[(1)] expected from 2024 onwards. Including ReAssure, the Group's aggregate cash generation from in-force business, after delivering cost and capital synergies and implementing certain management actions, is expected to be £19.0 billion, of which £6.5 billion is expected for the years 2019 to 2023 with a further £12.5 billion expected from 2024 onwards.

The proposed financing mix will maintain the Group's balance sheet strength, with the Fitch leverage ratio of the enlarged Group expected to be 30% at Completion, within the Group's target range of 25-30%. The estimated Solvency II surplus[(6)] as at 30 September 2019 is expected to increase from £3.0 billion to £4.2 billion, with the Shareholder Capital Coverage Ratio[(7)] decreasing from 156% to 148%. This will increase by Completion from the delivery of expected synergies and planned hedging actions. Implementation of Phoenix's hedging strategies is also expected to support the resilience of the Group's Solvency II capital sensitivities.

The Company expects that the integration of ReAssure will unlock significant value for Phoenix shareholders over time. The Acquisition is expected to result in recurring post-tax cost savings of £40 million per annum, valued at £400 million on a post-tax basis and capitalised over 10 years. The Acquisition is also expected to create non-recurring capital synergies of £450 million as a result of harmonising the capital framework and approach to risk management of the ReAssure business with that of Phoenix. The Directors expect to incur one-time post-tax expenditure of approximately £50 million to complete the integration. These synergies are incremental to the synergies that ReAssure expect to deliver from the integration of the Old Mutual Wealth Life Assurance Limited business.

Dividend and Dividend Policy

Supported by the additional long-term cash flows arising from the Acquisition, Phoenix expects to increase its current dividend per share by 3%, payable from the date of the final 2020 dividend. This will result in an increase in the annualised dividend per share from 46.8p to 48.2p. The Group intends to maintain its stable and sustainable dividend policy going forward.

Financing the Acquisition

The total consideration of £3.2 billion payable to Swiss Re and MS&AD will be financed through: (a) a cash consideration of £1.2 billion, and (b) the issuance to Swiss Re of Consideration Shares with a value of £2.0 billion, part of which will be transferred to MS&AD. The number of Consideration Shares to be issued by Phoenix to Swiss Re has been determined using a 30 day Volume Weighted Average Price up to and including the day before announcement of 721.3 pence, representing 27.8% of the enlarged Phoenix share capital following completion of the Acquisition. The Company proposes to finance the cash consideration through a combination of debt facilities and own cash resources.

Integration of ReAssure

Phoenix management has a proven track record of successfully integrating businesses into the Group. The integration of the AXA and Abbey Life businesses were completed ahead of plan, generating synergies ahead of target and Phoenix remains on track to deliver the £1.2 billion total synergy target for the transition of the Standard Life Assurance businesses which is progressing to plan. The Group is therefore able to draw on its skilled resource pool to execute the integration of ReAssure.

The Group will apply a disciplined approach to the integration of ReAssure given the significant integration work that both Phoenix and ReAssure have to deliver over the next two to three years. Phoenix will continue to prioritise completion of the transition of the Standard Life Assurance Limited businesses including delivering a Harmonised Internal Model and migrating policy administration onto the TCS BaNCS platform. ReAssure will proceed with delivering the successful integration of the mature savings business of the L&G Group and the Old Mutual Wealth Life Assurance Limited business including the migration of these policies onto ReAssure's ALPHA administration platform.

Phoenix will therefore follow a phased approach to the integration of ReAssure and will commence a review of the end state operating model for Customer Service and IT after other integration activity has completed. The cost and capital synergy targets that Phoenix has identified therefore place no value on this potential integration phase.

Notes

(1) Incremental cash generation arising from the acquisition of ReAssure is calculated using Phoenix's assumptions and reporting bases.

(2) ReAssure's assets under administration as at 30 September 2019 assume completion of the Part VII transfer of the mature savings business of the L&G Group and completion of the acquisition of Old Mutual Wealth Life Assurance Limited from Quilter plc which are expected

prior to Completion of the Acquisition.

(3) ReAssure's number of policies as at 1 November 2019 assume completion of the Part VII transfer of the mature savings business of the L&G Group and completion of the acquisition of Old Mutual Wealth Life Assurance Limited from Quilter plc which are expected prior to Completion of the Acquisition.

(4) Pro-forma assets under administration and number of policies for Phoenix are calculated as at 30 June 2019[(2,3)].

(5) The Solvency II capital position is an estimated position and reflects a regulatory approved recalculation of transitionals as at 30 September 2019 and a £0.1 billion benefit to Solvency II surplus from a release of longevity reserves.

(6) The 30 September pro-forma position for the enlarged Group has been prepared using the Deduction and Aggregation method ("Method 2") approach for incorporating the ReAssure entities in the Group solvency calculation. Under this method, ReAssure entities will continue to calculate their solvency capital requirements in accordance with the existing ReAssure Partial Internal Model. The use of the Method 2 approach is subject to approval at the discretion of the PRA. The 30 September 2019 pro-forma assumes the cash consideration of £1.2 billion is entirely funded by the issuance of hybrid debt under a fully underwritten facility.

(7) The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and Solvency Capital Requirements of unsupported with-profit funds and the PGL Pension Scheme.

(8) ReAssure's Solvency II Own Funds as at 30 September 2019 have been derived from ReAssure Solvency II figures and have been adjusted to be presented on a shareholder basis, excluding debt and assuming a dynamic recalculation of transitionals (subject to PRA approval), and including the pro forma impact of the Part VII of the mature savings business of the L&G Group Business and the acquisition of Old Mutual Wealth Life Assurance Limited (both based on financial information as at 31 December 2018).

(9) Cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the holding companies and is available to cover dividends, debt interest, debt repayments and other items. The cash generation figure of £707 million represents full year 2019 cash generation.

(10) 2019 cash generation target is net of the £250 million cost of capitalising Standard Life International Designated Activity Company for Brexit.

(11) The 30 June 2019 Solvency II capital position is an estimated position and assumes a dynamic recalculation of transitionals. Had a dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would decrease by £0.2 billion and 5% respectively.

(12) The pro forma assumes that the acquisition of the Standard Life Assurance businesses took

place on 1 January 2018.

(13) £164 million ReAssure profit before tax calculated as ReAssure profit before tax (attributable to owners of the Group) including the mature savings business of the L&G Group Business via reinsurance of £70 million and Old Mutual Wealth Life Assurance Limited profit before tax (after policy holder tax and before shareholder tax) of £94 million.

(14) ReAssure (including the mature savings business of the L&G Group Business on a reinsurance basis) of £44.3 billion as at 31 December 2018 and Old Mutual Wealth Life Assurance Limited of £12.5 billion as at 31 December 2018.

Phoenix Group Holdings plc LEI - 2138001P49OLAEU33T68

Important Notices

This announcement has been issued by and is the sole responsibility of the Company. The information contained in this announcement is for background purposes only and does not purport to be full or complete. The information in this announcement is subject to change. A copy of the combined Circular and Prospectus when published will be available on the Company's website, provided that such Circular and Prospectus will not, subject to certain exceptions, be available to certain shareholders in certain restricted or excluded territories. The combined Circular and Prospectus will give further details of the Acquisition and all shareholders are advised to read the Circular and Prospectus in full.

This announcement is for information purposes only and is not intended to and does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, any shares nor any other securities in any jurisdiction. Shares will not be generally made available or marketed to the public in the UK or any other jurisdiction in connection with the Acquisition.

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No person has been authorised to give any information or to make any representations other than those contained in this announcement and, when published, the Circular and Prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Company or the Banks. Subject to the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the issue of this announcement shall not, in any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this announcement or that the information in it is correct as at any subsequent date.

This announcement may contain certain forward-looking statements, beliefs or opinions, with respect to the financial condition, results of operations and business of the Company, the enlarged Group following the Acquisition and the Acquired Businesses. These statements, which contain the words "anticipate", "believe", "intend", "estimate", "expect", "may", "will", "seek", "continue", "aim", "target", "projected", "plan", "goal", "achieve" and words of similar meaning, reflect the Company's beliefs and expectations and are based on numerous assumptions regarding the Company's present and future business strategies and the environment the Company and the enlarged Group will operate in and are subject to risks and uncertainties that may cause actual results to differ materially. No representation is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the Company or the enlarged Group to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond the Company's or the enlarged Group's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of regulators and other factors such as the Company's or the enlarged Group's ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which the Company or the Acquired Businesses operate or in economic or technological trends or conditions. Past performance of the Company or the Acquired Businesses cannot be relied on as a guide to future performance. As a result, you are cautioned not to place undue reliance on such forward-looking statements. The list above is not exhaustive and there are other factors that may cause the Company's or the enlarged Group's actual results to differ materially from the forward-looking statements contained in this announcement. Forward-looking statements speak only as of their date and the Company, the Banks, their respective parent and subsidiary undertakings, the subsidiary undertakings of such parent undertakings, and any of such person's respective directors, officers, employees, agents, affiliates or advisers expressly disclaim any obligation to supplement, amend, update or revise any of the forward-looking statements made herein, except where it would be required to do so under applicable law. You are advised to read this announcement and, once published, the Circular and Prospectus in their entirety for a further discussion of the factors that could affect the Company's future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this announcement may not occur. No statement in this announcement is intended as a profit forecast or a profit estimate and no statement in this announcement should be interpreted to mean that the financial performance of the Company for the current or future financial years would necessarily match or exceed the historical published for the Company.