

TERMS AND CONDITIONS OF THE £500,000,000 6.5864 PER CENT.
FIXED/FLOATING RATE PERPETUAL RESET CAPITAL SECURITIES ISSUED BY
PEARL GROUP HOLDINGS (NO. 1) LIMITED

22 APRIL 2010

On the back:

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Notes which will be endorsed on each Note in definitive form (if issued).

The £500,000,000 6.5864 per cent. Fixed/Floating Rate Perpetual Reset Capital Securities (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further instruments issued pursuant to Condition 16 and forming a single series with the Notes) of Pearl Group Holdings (No. 1) Limited (formerly Resolution plc) (the "**Issuer**") are constituted by a trust deed dated 17 November 2005 between the Issuer and HSBC Trustee (C.I.) Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**"), as modified by a supplemental trust deed dated on or about 30 July 2008 and as further modified by a supplemental trust deed dated on or about 22 April 2010 made between the same parties and Phoenix Group Holdings (previously Pearl Group) (the "**Holding Company**") (the trust deed as so modified being hereinafter referred to as the "**Trust Deed**").

The issue of the Notes was authorised pursuant to resolutions of the Board of Directors of the Issuer passed on 18 October 2005 and resolutions of a duly authorised committee of the Board of Directors passed on 8 November 2005. The Notes were amended pursuant to an Extraordinary Resolution, passed by Noteholders on 22 April 2010, whereby a reduction of the outstanding principal amount of the Notes from £500,000,000 to £425,000,000 was effected by the application of a pool factor of 85 per cent.

The statements in these terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed; (ii) the paying agency agreement dated 17 November 2005 made between the Issuer, HSBC Bank plc as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor thereto) and the other paying agents named therein and any successors thereto (together with the Principal Paying Agent, the "**Paying Agents**"), HSBC Bank plc as agent bank (the "**Agent Bank**", which expression shall include any successor thereto) and the Trustee, as modified by an amended and restated paying agency agreement dated on or about 30 July 2008 and as further modified by an amended and restated paying agency agreement dated on or about 22 April 2010 made between the same parties (the paying agency agreement as so modified being hereinafter referred to as the "**Paying Agency Agreement**"); and (iii) the calculation agency agreement dated on or about 22 April 2010 made between the Issuer, the Trustee and Citigroup Global Markets Limited (the "**Calculation Agent**", which expression shall include any successor thereto, the calculation agency agreement so modified being hereinafter referred to as the "**Calculation Agency Agreement**") are available for inspection during normal business hours by the Noteholders and the holders of the interest coupons (the "**Coupons**", which expression includes, where the context so permits, Talons, as defined below) and talons for further Coupons (the "**Talons**") appertaining to Notes in definitive form (the "**Couponholders**") at the registered office of the Trustee, being at 1 Grenville Street, St. Helier, Jersey JE4 9PF and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Paying Agency Agreement and the Calculation Agency Agreement applicable to them.

1. **Form, Denomination and Title**

(a) ***Form and Denomination***

The Notes are serially numbered and in bearer form in the minimum denomination of £50,000 and integral multiples of £1,000 thereafter up to and including £99,000, each with Coupons and one Talon attached on issue.

(b) ***Title***

Title to the Notes, Coupons and Talons will pass by delivery. The bearer of any Notes will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as their absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the Noteholders.

(c) ***Application of Pool Factor***

Pursuant to an Extraordinary Resolution, duly passed by Noteholders on 22 April 2010, a pool factor of 85 per cent. shall be applied to all of the Notes as at the Coupon Payment Date falling in 2010. The effect of applying such pool factor is that the principal amount outstanding under each of the Notes shall be treated as reduced by 15 per cent. and the obligations of the Issuer to make any payments in respect of the Notes whether of principal or interest (other than any Deferred Coupon Payment relating to a period prior to the Coupon Payment Date falling in 2010) shall thereafter be calculated by reference to the principal amount so reduced by such pool factor. For voting purposes the pool factor shall not be taken into account and quorum and voting entitlement shall be calculated by reference to the principal amount outstanding on the Notes without application of the pool factor.

2. **Status and Subordination**

(a) ***Status***

The Notes and the Coupons relating to them, constitute direct, unsecured and subordinated securities of the Issuer and rank, and will rank, *pari passu* without any preference among themselves.

(b) ***Subordination***

(i) ***Condition to Payment***

The rights and claims of the Noteholders and the Couponholders are subordinated to the claims of all Senior Creditors, in that payments in respect of, or arising from, the Notes (including Coupons payable in cash or by way of the issue of Issuer Shares in accordance with Condition 6) are conditional upon the Issuer being solvent at the time of payment by the Issuer (or at the time of issue of such Issuer Shares and/or Ordinary Shares) and in that no principal, premium, interest or any other amount shall be due and payable in respect of the Notes

(including Coupons payable in cash or by way of the issue of Issuer Shares in accordance with Condition 6) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter, in each case except in the winding-up of the Issuer.

In these Conditions, the Issuer shall be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors).

A certificate as to the solvency of the Issuer by two Directors shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders, the Couponholders and all other interested parties as correct and sufficient evidence thereof.

(ii) *Solvency Claims*

Without prejudice to the rest of these Conditions, amounts representing any payments of principal, premium or interest or any other amount in respect of which the conditions referred to in Condition 2(b)(i) are not satisfied on the date upon which the same would otherwise be due and payable ("**Solvency Claims**") will be payable by the Issuer in a winding-up of the Issuer as provided in Condition 3. A Solvency Claim shall not bear interest.

(iii) *Set-off*

Subject to applicable law, no Noteholder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or the Coupons and each Noteholder and Couponholder shall, by virtue of his holding of any Note or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer under or in connection with the Notes is discharged by set-off, such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up, the liquidator of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer or the liquidator of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and accordingly any such discharge shall be deemed not to have taken place.

For the avoidance of doubt, if the Issuer would otherwise not be solvent for the purposes of the above Condition 2(b), any sums which would otherwise be payable in respect of the Notes will be available to meet the losses of the Issuer.

3. **Winding-up**

If at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except in any such case, a solvent winding-up solely for the purposes of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (a) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (b) do not provide that the Notes shall thereby become payable), there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the holder of such Note if, on the day prior to the commencement of the winding-up and thereafter, such Noteholder were the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") having an equal right to a return of assets in the winding-up to, and so ranking *pari passu* with, the holders of the most senior class or classes of preference shares with non-cumulative dividends in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of all other classes of issued non-cumulative shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding-up of the Issuer is determined on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up, were an amount equal to the principal amount of the relevant Note and any other Payments which are Outstanding thereon together with, to the extent not otherwise included within the foregoing, its *pro rata* share of any Solvency Claims attributable to the Note.

On a winding-up of the Issuer, there may be no surplus assets available to meet the claims of the Noteholders after the claims of the parties ranking senior to the Noteholders (as provided in Condition 3) have been satisfied.

4. **Coupon Deferral**

The Issuer is under no obligation to pay any Coupon Payment in cash so long as it exercises its right to defer any Coupon Payment in accordance with Condition 4(a). This is the result of:

(i) the Issuer having the right to defer any Coupon Payment otherwise scheduled to be paid on a Coupon Payment Date pursuant to Condition 4(a); and

(ii) the Issuer being obliged to satisfy any Deferred Coupon Payment only by the operation of the Alternative Coupon Satisfaction Mechanism.

(a) **Deferral Right**

The Issuer may elect to defer any Coupon Payment otherwise scheduled to be paid on a Coupon Payment Date by giving notice of such election to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance

with Condition 15, the Noteholders not less than 20 Business Days prior to the relevant Coupon Payment Date.

(b) ***Revocation of Deferral***

The Issuer may revoke any notification of an election to defer the Coupon Payment scheduled to be paid on the Coupon Payment Date falling in 2010 given in accordance with Condition 4(a) and the deferral set out therein by giving notice of such revocation to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders at any time between the Extraordinary Resolution being duly passed by Noteholders on 22 April 2010 and prior to the Coupon Payment Date falling in 2010. The revocation of such deferral notification may only be given to the extent that the Issuer confirms in such revocation notice its intention to pay the Coupon Payment due in 2010 on the original Coupon Payment Date falling in 2010.

(c) ***Satisfaction of Deferred Coupon Payments***

The Issuer shall (except where either Condition 3 or Condition 4(d) applies) satisfy any such Deferred Coupon Payment or any Deferred Coupon Payment which arises as a result of the failure to satisfy the condition to payment set out in Condition 2(b)(i) only by operation of the ACSM set out in Condition 6 and the Issuer may satisfy any Deferred Coupon Payment at any time. For so long as any Deferred Coupon Payment remains unsatisfied, the Dividend and Capital Restriction shall apply and for purposes of the application of the Dividend and Capital Restriction only (notwithstanding the provisions of Condition 6(c)) a Deferred Coupon Payment shall be considered to be satisfied by the delivery to the Trustee or to its order of the proceeds of sale of the Payment Ordinary Shares and/or Alternative Securities in respect of such Deferred Coupon Payment, in an amount equal to the Deferred Coupon Payment, in accordance with Condition 6(b) or where applicable Condition 6(e).

(d) ***Satisfaction of 2009 Deferred Coupon Payment***

Notwithstanding Condition 4(c), the Issuer and the Holding Company have undertaken, in accordance with the Extraordinary Resolution duly passed by Noteholders on 22 April 2010, that the operation of the ACSM in respect of the 2009 Deferred Coupon Payment shall be concluded by the Issuer and the Holding Company no later than 31 December 2010 or, if earlier, no later than 30 days following the issue by the Holding Company of additional Tier 1 Capital in an amount in excess of £33,000,000. Any notification given by the Issuer pursuant to Condition 6(a) in respect of the 2009 Deferred Coupon Payment shall state that the 2009 Deferred Coupon Payment is calculated by reference to an outstanding principal amount of the Notes of £500,000,000.

(e) ***No default***

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Coupon Payment by virtue of this Condition 4 or Condition

2(b)(i) shall not constitute a default for any purpose (including, without limitation, Condition 9(a)) on the part of the Issuer. Any Coupon Payment so deferred shall not, except in the circumstances provided in Condition 6(e), bear interest.

5. **Coupon Payments**

(a) ***Coupon Payment Dates***

The Notes bear interest at the applicable Coupon Rate from the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 2(b)(i), 2(b)(ii), 4, 6(a), 6(e) and 8(d), during the Fixed Rate Coupon Period, interest shall be payable on the Notes annually in arrear on each Coupon Payment Date up to and including the First Reset Date, and thereafter interest shall be payable on the Notes semi-annually in arrear on each subsequent Coupon Payment Date in each case as provided in this Condition 5.

Where it is necessary to compute an amount of interest in respect of any Note during the Fixed Rate Coupon Period for a period which is less than a complete year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, 25 April 2005) to (but excluding) the next (or first) scheduled Coupon Payment Date. Where it is necessary to compute an amount of interest in respect of any Note for a period of more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Interest shall accrue on the Notes in respect of all Coupon Periods (and any other period in respect of which interest may fall to be calculated) commencing on or after the First Reset Date on the basis of the actual number of days elapsed in the relevant period divided by 365 (or, in the case of a Coupon Payment Date falling in a leap year, 366).

(b) ***Interest Accrual***

The Notes will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 7(b), the date of redemption, substitution or variation thereof pursuant to Condition 7(c) or 7(d) or the date of substitution thereof pursuant to Condition 7(e), as the case may be, unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

(c) ***Fixed Coupon Rate***

During the Fixed Rate Coupon Period, the Notes bear interest on the principal amount treated as outstanding from time to time after the application of the pool factor referred to in Condition 1(c) at the rate of 6.5864 per cent. per annum (the "**Fixed Coupon Rate**") PROVIDED THAT for the Coupon Period ending on the Coupon Payment Date in 2010 the Fixed Coupon Rate shall be applied in respect of the entire Coupon Period to the principal amount treated as outstanding on the Notes on such Coupon Payment Date before application of the pool factor referred to in Condition 1(c) notwithstanding that the principal amount shall have been reduced during such Coupon Period.

(d) ***Floating Coupon Rate***

From (and including) the First Reset Date, the Notes will bear interest at a floating rate of interest (the "**Floating Coupon Rate**"). The Floating Coupon Rate in respect of each Coupon Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Coupon Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for six-month pounds sterling deposits as at 11.00 a.m. (London time) on such Coupon Determination Date, as displayed on the display designated as Reuters Screen Page LIBOR01 (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Coupon Rate for the Coupon Period commencing on the Coupon Determination Date shall be such offered rate as determined by the Agent Bank plus the Margin.
- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal London office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the London inter bank market for six-month pounds sterling deposits as at 11.00 a.m. (London time) on the Coupon Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Coupon Rate for the Coupon Period commencing on the relevant Coupon Determination Date shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded upwards if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.
- (iii) If on any Coupon Determination Date to which the provisions of subparagraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Coupon Rate for the Coupon Period commencing on such Coupon Determination Date shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded upwards, if necessary, to the nearest one hundred thousandth of a

percentage point (0.000005 per cent. being rounded upwards)) of the pounds sterling lending rates which leading banks in London selected by the Agent Bank are quoting, on the relevant Coupon Determination Date, to leading banks in London for a period of six months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Coupon Rate for such Coupon Period shall be either (1) the Floating Coupon Rate in effect for the last preceding Coupon Period to which one of the preceding subparagraphs of this Condition 5(d) shall have applied or (2) if none, 6.5864 per cent. per annum.

(e) ***Determination of Floating Coupon Rate and Calculation of Floating Coupon Amount***

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Coupon Determination Date, determine the Floating Coupon Rate in respect of the relevant Coupon Period and calculate the amount of interest payable in respect of each Note on the Coupon Payment Date for the relevant Coupon Period (the "**Floating Coupon Amount**") by applying the Floating Coupon Rate for such Coupon Period to the principal amount outstanding of a Note subject to Condition 1(c), multiplying such sum by the actual number of days in the Coupon Period concerned divided by 365 (or, in the case of a Coupon Payment Date falling in a leap year, 366) and, if necessary, rounding the resultant figure to the nearest £0.01 (£0.005 being rounded upwards).

(f) ***Publication of Floating Coupon Rate and Floating Coupon Amount***

The Issuer shall cause notice of the Floating Coupon Rate determined in accordance with this Condition 5 in respect of each relevant Coupon Period and of the Floating Coupon Amount and the relevant Coupon Payment Date to be given to the Trustee, the Paying Agents and, in accordance with Condition 15, the Noteholders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter. The Issuer shall cause notice of the same to be given to any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading on the relevant Coupon Determination Date.

The Floating Coupon Amounts, the Floating Coupon Rate and the Coupon Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Coupon Period or in the event of proven or manifest error.

(g) ***Determination or Calculation by Trustee***

The Trustee (or an agent appointed by it at the expense of the Issuer) shall, if the Agent Bank does not at any relevant time for any reason determine the Floating Coupon Rate on the Notes in accordance with this Condition 5, determine the Floating Coupon Rate in respect of the relevant Coupon Period at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures described in this Condition 5), it shall deem fair and

reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Agent Bank.

(h) ***Agent Bank***

So long as any Notes remain outstanding the Issuer will maintain an Agent Bank. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 5(g) above) fails duly to determine the Floating Coupon Rate in respect of any Coupon Period as provided in Condition 5(d), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(i) ***Determinations of Agent Bank or Trustee Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Noteholders, the Couponholders, the Issuer or any other person shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

6. **Alternative Coupon Satisfaction Mechanism**

(a) ***The Alternative Coupon Satisfaction Mechanism***

Each ACSM Payment, when due to be satisfied in accordance with these Conditions, will (except as provided in Condition 8(d)) be satisfied by the Issuer in full only through the issue of Issuer Shares to the Trustee or its agent in accordance with this Condition 6. The Issuer shall notify the Holding Company, the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant ACSM Payment Date that an ACSM Payment is to be satisfied on such ACSM Payment Date. All other Payments due must, subject to Conditions 2(b)(i) and 4, be satisfied in accordance with Condition 8(a).

(b) ***ACSM Payments***

If any ACSM Payment is to be satisfied through the issue of Issuer Shares to the Trustee or its agent as required by the provisions of this Condition 6 then, subject to Conditions 6(d) and 6(e):

- (i) by close of business on or before the 11th Business Day prior to the relevant ACSM Payment Date, the Issuer will issue to the Trustee (or, if notified in writing to the Issuer by the Trustee, to an agent of the Trustee) such number of Issuer Shares (the "**Payment Issuer Shares**") as, in the determination of the Calculation Agent, will have a market value (or, if higher, par value) as near as practicable to, but not less than, the aggregate of the relevant ACSM Payment and the Associated Costs to be satisfied in accordance with this Condition 6;
- (ii) (A) subject to receipt by the Trustee or its agent of the Payment Issuer Shares by close of business on or before the 11th Business Day prior to the relevant ACSM Payment Date, the Trustee has agreed to use reasonable endeavours to effect the transfer or instruct its agent to transfer the Payment Issuer Shares to the Holding Company as soon as practicable and in any case by close of business on or before the 7th Business Day prior to the relevant ACSM Payment Date; (B) In consideration for the Payment Issuer Shares transferred pursuant to Condition 6(b)(ii)(A) above (unless Condition 6(b)(v) is applicable), the Holding Company will issue to the Trustee (or, if notified in writing to the Issuer by the Trustee, to an agent of the Trustee), by close of business on or before the 7th Business Day prior to the relevant ACSM Payment Date, Ordinary Shares (the "**Payment Ordinary Shares**") in such number as, in the determination of the Calculation Agent, have a market value as near as practicable to, but not less than, the aggregate of the relevant ACSM Payment and the Associated Costs to be satisfied in accordance with this Condition 6;
- (iii) subject to receipt by the Trustee (or its agent) of the Payment Ordinary Shares by close of business on or before the 7th Business Day prior to the relevant ACSM Payment Date the Trustee has agreed to use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Ordinary Shares to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the 6th Business Day prior to the relevant ACSM Payment Date and the Calculation Agent has agreed in the Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Ordinary Shares (unless Condition 6(b)(v) is applicable). The Calculation Agent has further agreed in the Calculation Agency Agreement to deliver such proceeds of such sale to, or hold such proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays or instruct or procure that its agent instructs the Calculation Agent to pay such proceeds as it holds in respect of the relevant ACSM Payment on its due date to the

Principal Paying Agent for application in accordance with Condition 6(c).

The Trustee shall not be liable to anyone for any loss occasioned by the transfer or sale of the Payment Issuer Shares and/or the Payment Ordinary Shares and/or Alternative Securities, in each case by or on behalf of the Trustee, or any delay or failure in effecting such transfer or sale of the Payment Issuer Shares and/or the Payment Ordinary Shares and/or Alternative Securities under these Conditions.

- (iv) If the proceeds of the sale of the Payment Ordinary Shares will not, in the opinion of the Calculation Agent (such opinion to be notified to the Issuer, the Holding Company and the Trustee), subject to Conditions 6(d) and 6(e) but despite the arrangements contained in (i) above, result in a sum at least equal to the aggregate of the relevant ACSM Payment and the Associated Costs being available to make the necessary ACSM Payment, together with the Associated Costs, in full on its due date (the amount by which such proceeds are less than the aggregate amount of the ACSM Payment and the Associated Costs being an "**ACSM Shortfall**"), the Issuer, the Holding Company, (to the extent expressly required of it under paragraphs (i), (ii) and (iii) of Condition 6(b) only) the Trustee and the Calculation Agent have agreed to take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Payment Issuer Shares and/or additional Payment Ordinary Shares and following, *mutatis mutandis*, the procedures contained in (i), (ii) and (iii) above, a sum as near as practicable to, and at least equal to, the aggregate of the relevant ACSM Payment and Associated Costs will be available to make the relevant ACSM Payment to or to the order of the Trustee, together with the Associated Costs, in full on its due date.
- (v) Not less than 16 Business Days prior to the relevant ACSM Payment Date the Holding Company may serve notice on the Trustee, the Principal Paying Agent and the Calculation Agent that instead of operating the other provisions of Condition 6(b), other than Condition 6(b)(i) and Condition 6(b)(ii)(A), in respect of the relevant ACSM Payment it will, instead of issuing Payment Ordinary Shares to the Trustee (or its agent) in accordance with Condition 6(b)(ii)(B), issue Alternative Securities to the Trustee or its agent. Subject to receipt by the Trustee (or its agent) of the Alternative Securities by the close of business on the 7th Business Day prior to the relevant ACSM Payment Date the Trustee has agreed to use reasonable endeavours to effect the transfer (or instruct its agent to effect the transfer) of such Alternative Securities to or to the order of the Calculation Agent (subject to any necessary consents being obtained) as soon as practicable and in any case not later than by close of business on the 6th Business Day prior to the relevant ACSM Payment Date and the Calculation Agent has agreed in the Calculation Agency Agreement to transfer or procure the transfer of such Alternative Securities to such purchasers as shall have been identified by the Issuer to the Calculation Agent in writing at a

total consideration equal to the amount of the ACSM Payment together with the Associated Costs.

The Calculation Agent has further agreed in the Calculation Agency Agreement to deliver such proceeds of such sales to or hold such proceeds of sale to the order of the Trustee, who shall pay or procure that its agent pays or instruct or procure that its agent instructs the Calculation Agent to pay such proceeds as it holds in respect of the relevant ACSM Payment and Associated Costs to the Principal Paying Agent on its due date for application in accordance with Condition 6(c).

(c) ***Issuer Satisfies Payment***

Where the Issuer makes an ACSM Payment in full or in part hereunder by issuing Issuer Shares to the Trustee (or, as the case may be, its agent) and issues such Issuer Shares, such issue shall satisfy the Issuer's obligations in respect of the relevant ACSM Payment or, as the case may be, in the circumstances referred to in Condition 6(d) below, the relevant part of such ACSM Payment, if made in accordance with this Condition 6. The proceeds of sale of Payment Ordinary Shares and/or Alternative Securities resulting from the mandatory exchange of Payment Issuer Shares in accordance with Condition 6 shall be paid by the Principal Paying Agent to the Noteholders in respect of the relevant ACSM Payment. For the avoidance of doubt no failure to make an ACSM Payment in full or in part under the terms of Condition 6 shall constitute a default on the part of the Issuer for any purpose (including without limitation for the purposes of Condition 9(a)) PROVIDED THAT the Issuer shall have issued the Issuer Shares to the Trustee or its agent in accordance with this Condition 6.

(d) ***Insufficiency***

The Issuer shall not be entitled to exercise its option pursuant to any of Conditions 7(b), 7(c), 7(d), 7(e) or 7(f) to redeem, substitute, purchase or vary any of the Notes until such time as the Issuer and the Holding Company has available for, and the directors of the Issuer and the Holding Company have the corresponding authority to, issue a sufficient number of, respectively, Issuer Shares or Ordinary Shares as is required to be issued in accordance with this Condition 6 for the purposes of satisfying in full in accordance with this Condition 6 any ACSM Payment required to be satisfied in connection with any such redemption, substitution or variation of the Notes.

(e) ***Market disruption***

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event on or after the 15th Business Day preceding any ACSM Payment Date, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant

ACSM Payment may be deferred until such time as the Market Disruption Event no longer exists.

Any such deferred ACSM Payment will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such deferred ACSM Payment unless, as a consequence of the existence of a Market Disruption Event, the Issuer does not make the relevant ACSM Payment and which is not made for a period of 14 days or more after the due date therefor, in which case interest shall accrue on such deferred ACSM Payment from (and including) the date on which the relevant ACSM Payment was due to be made to (but excluding) the date on which such ACSM Payment is made. Any such interest shall accrue at a rate determined in accordance with Condition 5 and shall be satisfied only in accordance with Condition 6, as soon as reasonably practicable after the relevant deferred ACSM Payment is made. No liability shall attach to the Trustee or its agent if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

(f) ***Listing***

The Holding Company shall ensure (to the extent possible) that, at the time when any Payment Ordinary Shares and/or Alternative Securities are issued pursuant to this Condition 6, such Payment Ordinary Shares and/or Alternative Securities are listed and admitted for trading on a Recognised Stock Exchange.

7. **Redemption, Substitution, Variation or Purchase**

(a) ***No Fixed Redemption Date***

The Notes are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 11) only have the right to repay, substitute, vary or purchase them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

In addition, any redemption, substitution, variation or purchase of the Notes is:

- (i) subject to giving at least one months' prior written notice to, and receiving no objection from, the FSA (or such period of notice as the FSA may accept and so long as such notice is required to be given);
- (ii) (other than in the case of a Preference Share Substitution) subject to the Issuer being in compliance with the Capital Regulations applicable to it from time to time (and a certificate from any two Directors confirming such compliance shall be conclusive evidence of such compliance);
- (iii) conditional on all Deferred Coupon Payments (if any) and (in the case of Condition 7(e) only) Accrued Coupon Payments (if any) being

satisfied in full by the operation of the ACSM pursuant to Condition 6 and the Trust Deed on or prior to the date thereof; and

- (iv) in addition, in the case of the substitution for Substituted Preference Shares under Condition 7(e)(i), such substitution is conditional upon the Issuer (i) having created and maintained a sufficient number of authorised (but unissued) Substituted Preference Shares necessary to effect a Preference Share Substitution in accordance with Condition 7(e); and (ii) having obtained the corporate authorisation necessary to effect the substitution of the Notes for the Substituted Preference Shares.

(b) ***Issuer's Call Option***

Subject to Condition 7(a), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable) elect to redeem all, but not some only, of the Notes on the First Reset Date or any Coupon Payment Date thereafter at the Redemption Price together with any Outstanding Payments (such redemption amount to be payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of the ACSM pursuant to Condition 6).

(c) ***Redemption, Substitution or Variation Due to Taxation***

If immediately prior to the giving of the notice referred to below:

- (i) as a result of a Tax Law Change, in making any payments on the Notes, the Issuer has paid, or will or would on the next payment date be required to pay, Additional Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or
- (ii) as a result of a Tax Law Change in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (x) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; (y) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 15 November 2005 or any similar system or systems having like effect as may from time to time exist); or (z) the Issuer would otherwise suffer adverse tax consequences, and in each such case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or
- (iii) other than as a result of a Tax Law Change, in respect of the Issuer's obligation to make any Coupon Payment on the next following Coupon Payment Date, (w) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United

Kingdom or such entitlement is materially reduced; (x) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 15 November 2005 or any similar system or systems having like effect as may from time to time exist); (y) the Issuer would otherwise suffer adverse tax consequences; or (z) the Issuer has paid, or would on the next date on which it is due to make a payment under those Conditions be required to pay, Additional Amounts on the Note pursuant to Condition 10, and in each such case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it,

then

- (aa) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time on or prior to the First Reset Date, all, but not some only, of the Notes (I) in the case of a Par Tax Event, at the Redemption Price and (II) in the case of an Other Tax Event, at the Make Whole Redemption Price, together, in each case, with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of the ACSM pursuant to Condition 6); or
- (bb) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Notes for, or vary the terms of the Notes so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (bb) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of the ACSM pursuant to Condition 6. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, PROVIDED THAT the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which

the Notes are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 7(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that the relevant requirement or circumstance referred to in paragraphs (i), (ii) or (iii) above applies and the Trustee shall accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs, in which event it shall be conclusive and binding on the Noteholders. Upon expiry of such notice, the Issuer shall either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

(d) ***Redemption, Substitution or Variation for Regulatory Purposes***

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then:

- (i) the Issuer may, subject to Condition 7(a) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions, at any time on or prior to the First Reset Date all, but not some only, of the Notes. The Notes will be redeemed at the Make Whole Redemption Price together with any Outstanding Payments (all such amounts so payable being payable in cash, save for any Deferred Coupon Payments which will be satisfied by operation of the ACSM pursuant to Condition 6); or
- (ii) the Issuer may, subject to Condition 7(a) (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Notes for, or vary the terms of the Notes so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (ii) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will be satisfied by the operation of the ACSM pursuant to Condition 6. The Trustee shall use its reasonable endeavours to assist

the Issuer in the substitution or variation of the Notes for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, PROVIDED THAT the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the Notes are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 7(d), the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate, and the Trustee shall accept such certificate as sufficient evidence of the occurrence and continuation of a Capital Disqualification Event, in which event it shall be conclusive and binding on the Noteholders. Upon expiry of such notice, the Issuer shall either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 7(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

(e) ***Substitution for Substituted Preference Shares***

(i) At any time a Substitution Event has occurred and is continuing, the Issuer may (subject to Condition 7(a)) give not less than 30 nor more than 60 days' notice thereof and of its intention to effect a Preference Share Substitution (as defined below) ("**Substitution Notice**") to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), and shall on the expiry of such notice (the "**Substitution Date**") cause the substitution in accordance with this Condition of all (but not some only) of the Notes for fully paid non-cumulative preference shares issued directly by the Issuer (the "**Substituted Preference Shares**") (such substitution being referred to herein as a "**Preference Share Substitution**"). The terms of the Substituted Preference Shares shall provide that:

(x) the Substituted Preference Shares may only be redeemed on 25 April 2016 (being the same date as the First Reset Date of the Notes) or such later date (as determined by the Issuer and notified to the Trustee in writing) as may be required to enable the Substituted Preference Shares to qualify as Tier 1 Capital or any dividend payment date thereafter (save for redemption, substitution or variation on terms analogous with the terms of Condition 7(d) and subject to the same conditions as those set out in the second paragraph of Condition 7(a));

(y) that the Issuer has the right to choose whether or not to pay any dividend; and

- (z) that any dividend payable shall be non-cumulative (and accordingly there shall be no provision analogous to the ACSM incorporated in the terms of the Substituted Preference Shares), and otherwise shall in all material commercial respects provide the holders thereof with at least the same economic rights and benefits (including those relating to non-cumulative (except as aforesaid) distributions and ranking) as are attached to the Notes and the Coupons taken together (such terms to be as reasonably determined by the Issuer, as conclusively evidenced by a certificate signed by two Directors to the effect that the terms of the Substituted Preference Shares comply with the foregoing which shall be delivered to the Trustee prior to the Issuer being able to effect such Preference Share Substitution).
- (ii) In connection with any Preference Share Substitution in accordance with this Condition 7(e), all Deferred Coupon Payments and Accrued Coupon Payments (if any) will be satisfied on the Substitution Date by the operation of the ACSM pursuant to Condition 6.
- (iii) The Issuer shall enclose with the Substitution Notice a substitution confirmation (the "**Substitution Confirmation**") which each Noteholder will be required to complete, and which shall require each Noteholder to provide to the Issuer such information as the Issuer may reasonably require to be able to effect a Preference Share Substitution in accordance with this Condition 7(e). The form of such Substitution Confirmation shall also be made available at the offices of each Paying Agent. To receive Substituted Preference Shares in respect of its holding of Notes, each Noteholder must deliver to a Paying Agent a duly completed Substitution Confirmation together with all relevant Notes held by it. Any such Preference Share Substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Certificates (if any) for Substituted Preference Shares issued on a Preference Share Substitution will be despatched by or on behalf of the Issuer by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month of the later of the Substitution Date and receipt of a duly completed Substitution Confirmation. Noteholders will continue to be entitled to receive payments in respect of the Notes until the Substitution Date (PROVIDED THAT the Substituted Preference Shares are available for issue as aforesaid from the Substitution Date and the Issuer makes the payment referred to in Condition 7(e)(ii)) and thereafter Noteholders will have no further rights, title or interest in or to their Notes except to have them substituted in the manner described in this Condition 7(e). Each Substituted Preference Share allotted will rank for any dividend from the Substitution Date and will, without prejudice to Condition 7(e)(ii), have no entitlement to any Accrued Coupon Payment or any other payment on the Notes.
- (iv) The Issuer will pay any taxes or capital duties or stamp duties payable in the United Kingdom arising on the allotment and issue of the

Substituted Preference Shares. The Issuer will not be obliged to pay, and each Noteholder delivering Notes and a duly completed Substitution Confirmation to a Paying Agent must pay (directly to the relevant authority, or as directed by the Issuer) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on the relevant Preference Share Substitution. The Issuer will not be obliged to pay, and each Noteholder must pay, all, if any, taxes arising by reference to any disposal or deemed disposal of a Note in connection with such Preference Share Substitution. Substituted Preference Shares will not be allotted to Restricted Persons.

- (v) Prior to the publication of a Substitution Notice, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Substitution Event has occurred and is continuing as at the date of the certificate, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence and continuation of such Substitution Event in which event it shall be conclusive and binding on the Noteholders.
- (vi) The Issuer undertakes to use all reasonable endeavours (PROVIDED THAT the Issuer has given the Substitution Notice) to obtain and maintain a listing of the Substituted Preference Shares on a Recognised Stock Exchange.
- (vii) In connection with any Preference Share Substitution in accordance with this Condition 7(e), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.
- (viii) The provisions of this Condition 7(e) (except for Condition 7(e)(ii) as regards satisfaction of Accrued Coupon Payments (if any)) will apply *mutatis mutandis* to Conditions 7(c) and 7(d) in the event that the Qualifying Tier 1 Securities for which the Notes may be substituted in accordance with either of Conditions 7(c) or 7(d) comprise Substituted Preference Shares.

(f) ***Purchases***

The Issuer or any Subsidiary may, subject to Condition 2(b)(i), at any time purchase Notes in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto.

(g) ***Cancellation***

All Notes so redeemed or substituted by the Issuer and any unmatured Coupons and Talons appertaining thereto will be cancelled and may not be reissued or resold. Notes purchased by the Issuer or any Subsidiary may not be held, reissued or resold and, accordingly, will forthwith be surrendered to any Paying Agent for cancellation.

(h) ***Trustee not Obligated to Monitor***

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 or whether a Suspension under Condition 8(d) has occurred and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7 or the occurrence of a Suspension under Condition 8(d), it shall be entitled to assume that no such event or circumstance exists.

8. **Payments**

(a) ***Method of Payment***

(i) Payments of principal, premium and Coupon Amounts will be made by or on behalf of the Issuer against presentation and surrender of Notes or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of Coupon Amounts in respect of any period not ending on a Coupon Payment Date will only be made upon surrender of the relevant Notes. Such payments will be made (subject to Condition 8(a)(ii) below), at the option of the payee, by pounds sterling cheque drawn on, or by transfer to a pounds sterling account maintained by the payee with, a bank in London.

(ii) Upon the due date for redemption of any Notes, any unexchanged Talon relating to such Notes (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talon and unmatured Coupons relating to such Notes (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Note is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(iii) On or after the Coupon Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Notes, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

(b) ***Payments subject to Fiscal Laws***

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) ***Payments on Business Days***

If the date for payment of any amount in respect of any Note or Coupon, or any later date on which any Note or Coupon is presented for payment, is not a business day, then the holder thereof shall not be entitled to payment at that place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 8(c), "**business day**" means any day (not being a Saturday, Sunday or a public holiday) on which commercial banks and foreign exchange markets which settle payments in sterling are open in London and in the relevant place of payment.

(d) ***Suspension***

In the event of any Permitted Restructuring or any other take-over offer, acquisition, disposal, reorganisation, restructuring, scheme of arrangement or merger as a result of which the holding company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner (the "**Event**"), then the Issuer shall as soon as practicable give notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders, whereupon the operation of the ACSM shall be suspended (such event being a "**Suspension**"). In such event, unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of the Event (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank appointed by the Issuer (at the Issuer's expense) and approved by the Trustee shall determine, subject to the requirements that:

- (i) the Issuer shall not be obliged to reduce its net assets;
- (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the Notes for insurance regulatory capital and solvency purposes without giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such period of notice as the FSA may accept and so long as such notice is required to be given); and
- (iii) no such amendment may be made which would, in the Trustee's opinion, impose more onerous obligations on it without its consent,

which amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order to (aa) preserve substantially the economic effect, for the Noteholders, of a holding of the Notes prior to the Suspension and (bb) to replicate the ACSM and the Dividend and Capital Restriction in the context of the capital structure of the Issuer and the new Ultimate Owner.

Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the Noteholders or Couponholders, effect any necessary

consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the Issuer's right to satisfy an ACSM Payment by the method contemplated in Condition 6 shall no longer be subject to the Suspension. Without prejudice to Condition 8(d)(iii), the Trustee shall accept without investigation, requisition or objection such determination and the necessary consequential changes, subject to Condition 8(d)(iii) above, notified to it by such investment bank and need not examine or enquire into or be liable for any omission, inaccuracy or misinformation therein contained whether such omission, inaccuracy or misinformation might have been discovered upon examination or enquiry.

If, after using all reasonable endeavours, such investment bank is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner if not the Holding Company, the new Ultimate Owner, the Trustee, the Principal Paying Agent and the Calculation Agent and the Notes shall (subject in each case to giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such period of notice as the FSA may accept and so long as such notice is required to be given) and with the prior agreement of the new Ultimate Owner) at the option of the Issuer either be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or shall be redeemed, in each case as described below.

If, following a Suspension, the Notes are to be substituted for, or varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable) and all (but not some only) of the Notes will be substituted for, or the terms varied so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the Directors referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the relevant investment bank referred to above) agree to such substitution or variation. In connection therewith, all Deferred Coupon Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights thereto are preserved for the purposes of the Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Issuer Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay the amount of such Deferred Coupon Payments in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares and/or Alternative Securities being construed as references to such ordinary shares or equivalent capital of the new Ultimate Owner which, when sold, provide a net cash amount of not less than the amount of such Deferred Coupon Payments so payable by the Issuer). The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the

Notes for or into Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, PROVIDED THAT the Trustee shall not be obliged to participate or assist in any such substitution or variation if the terms of the securities into which the Notes are to be substituted or are to be varied impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not so participate or assist as provided above, the Issuer may, subject as provided above, elect to redeem the Notes as provided in this Condition 8(d).

In connection with any substitution or variation in accordance with this Condition 8(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

If, following a Suspension, the Notes are to be redeemed by the Issuer, the Issuer shall give notice thereof to the Trustee, the Principal Paying Agent, the Calculation Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable and which shall expire as soon as practicable after confirmation of no objection from the FSA) and all (but not some only) of the Notes will be redeemed at (in the case of any redemption prior to the First Reset Date) the Make Whole Redemption Price or (on or after the First Reset Date) the Redemption Price, together in each case with any Outstanding Payments, not later than the 60th Business Day following the giving of such notice by the Issuer to the Noteholders.

Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Ordinary Shares to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue its ordinary shares (or capital of an equivalent class) so as to enable it to pay such redemption amount in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Ordinary Shares and/or Alternative Securities being construed as references to such ordinary shares or equivalent capital of the new Ultimate Owner which, when sold, provide a net cash amount of not less than the redemption amount so payable by the Issuer).

9. **Non-Payment when Due**

Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. Pursuant to Condition 2(b) no principal, premium interest or any other amount will be due on the relevant Payment Date if the Issuer would not be solvent. Also, in the case of any Coupon Payment, such Payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 4 or if the circumstances referred to in any of Conditions 6(e) or 8(d) then apply. The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

- (a) If the Issuer shall not make payment in respect of the Notes (in the case of payment of principal and/or premium) for a period of seven days or more after the due date for the same or (in the case of any Coupon Amount, Deferred

Coupon Payment, Accrued Coupon Payment or any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall) shall not make payment for a period of 14 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the Notes and the Coupons and the Trustee may, notwithstanding the provisions of Condition 9(b) institute proceedings for the winding-up of the Issuer and/or prove in any such winding-up.

- (b) Without prejudice to Condition 9(a) and subject as provided in Condition 18, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer or the Holding Company (as applicable) as it may think fit to enforce any term or condition binding on the Issuer and/or the Holding Company under the Trust Deed, the Notes or the Coupons (other than for the payment by the Issuer of any principal or premium or satisfaction of any Payments in respect of the Notes or the Coupons, including any payment under Clause 2.6 of the Trust Deed in respect of a payment shortfall and any other amounts under or arising from the Notes) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.
- (c) The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) or (b) above against the Issuer and/or the Holding Company to enforce the terms of the Trust Deed, the Notes or the Coupons or any other action under or pursuant to these Conditions or the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the Noteholders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.
- (d) No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer or the Holding Company or to institute proceedings for the winding-up of the Issuer and/or the Holding Company or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder or Couponholder shall have only such rights against the Issuer and/or the Holding Company as those which the Trustee is entitled to exercise.
- (e) No remedy against the Issuer or the Holding Company, other than as referred to in this Condition 9, shall be available to the Trustee or any Noteholder or Couponholder whether for the recovery of amounts owing in respect of the Notes, Coupons or under the Trust Deed or in respect of any breach by the Issuer or the Holding Company of any of its other obligations under or in respect of the Notes, Coupons or under the Trust Deed.

10. **Taxation**

All payments by the Issuer of principal, premium, Coupon Amounts, Deferred Coupon Payments, Accrued Coupon Payments and Solvency Claims in respect of the Notes will be made without withholding of or deduction for, or on any account of, any

present or future United Kingdom taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts receivable by Noteholders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of a requirement to make such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment with respect to any Notes or Coupons:

- (a) to, or to a third party on behalf of, a Noteholder or Couponholder who (i) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Note or Coupon;
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the Noteholder or Couponholder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium, Coupon Amounts, Deferred Coupon Payments, Accrued Coupon Payments and/or Solvency Claims, shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

11. **Prescription**

Notes and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Notes and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon

sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

12. **Meetings of Noteholders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests including the modification by Extraordinary Resolution (as defined in the Trust Deed) of these Conditions or other provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal, any applicable premium or Coupon Payments in respect of the Notes and reducing or cancelling the principal amount of any Notes, any applicable premium or the Coupon Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Conditions 7(c), 7(d) and 8(d) in connection with the substitution or variation of the Notes so that they become Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (as the case may be), and to which the Trustee has agreed pursuant to the relevant provisions of Conditions 7(c), 7(d) or 8(d), as the case may be.

An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee may agree (subject to the Trust Deed), without the consent of the Noteholders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any other provisions of the Trust Deed, the Paying Agency Agreement or the Calculation Agency Agreement which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification which, in the opinion of the Trustee, is of a formal, minor or technical nature or to correct a manifest error. No modification or waiver to these Conditions or any other provisions of the Trust Deed or substitution as described below shall become effective unless the Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such period of notice as the FSA may accept and so long as there is a requirement to give such notice).

The Trustee may agree with the Issuer and the Holding Company, without the consent of the Noteholders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Condition 2 of any person or persons incorporated in

any country in the world (other than the United States) (the "**Substitute Obligor**") in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed, the Notes and the Coupons PROVIDED THAT:

- (a) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, the Notes, the Coupons and the Talons, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the Notes, the Coupons and the Talons, as the principal debtor in place of the Issuer (or of any previous Substitute Obligor, as the case may be);
- (b) (unless the successor in business of the Issuer is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed, the Notes, the Coupons and the Talons are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee;
- (c) if the directors of the Substitute Obligor or other officers acceptable to the Trustee shall certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected, the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer;
- (d) (without prejudice to the rights of reliance of the Trustee under Condition 12(c)) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
- (e) (without prejudice to the generality of Condition 12(a)) the Trustee may in the event of such substitution agree, without the consent of the Noteholders or Couponholders, to a change in the law governing the Trust Deed and/or the Notes and/or the Coupons and/or the Talons, PROVIDED THAT such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders;
- (f) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the "**Issuer's Territory**"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 10 with the substitution for the references in that Condition to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the Note, the Coupons and the Talons, will be read accordingly; and

- (g) the Issuer, the Substitute Obligor and the Holding Company comply with such other requirements as are reasonable in the interests of the Noteholders, as the Trustee may direct.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its powers, authorities, rights and discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Noteholders as a class and the Trustee shall not have regard to the consequences of such substitution or such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any substitution or such exercise as aforesaid, no Noteholder or Couponholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Noteholders or Couponholders except to the extent already provided in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Noteholders and all Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

13. Replacement of the Notes, Coupons and Talons

Should any Notes, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of any Paying Agent (or any other place of which notice shall have been given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before any replacement Notes, Coupons or Talons will be issued.

14. The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary without accounting for any profit resulting therefrom.

15. Notices

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

16. **Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further Notes ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Notes) and so that the same shall be consolidated and form a single series with the outstanding Notes. Any such Notes shall be constituted by a deed supplemental to the Trust Deed.

17. **Agents**

The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the approval of the Trustee, such approval not to be unreasonably withheld, at any time to vary or terminate the appointment of any Paying Agent or the Calculation Agent and to appoint additional or other Paying Agents or (as the case may be) another Calculation Agent, PROVIDED THAT it will:

- (a) at all times maintain an Agent Bank, a Calculation Agent, a Principal Paying Agent and a Paying Agent having a specified office in London (which may be the same as the Principal Paying Agent);
- (b) for so long as the Notes are admitted to trading on any stock exchange and the rules of that stock exchange so require, a Paying Agent having a specified office in whichever location is required to maintain such admission to trading; and
- (c) insofar as the Issuer would be obliged to pay additional amounts pursuant to Condition 10 upon presentation of the Note or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to such Directive and which is approved by the Trustee,

PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State to so withhold or deduct tax.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Noteholders in accordance with Condition 15. If any of the Agent Bank, Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the Calculation Agency Agreement or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent

investment bank acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, Calculation Agent or the Principal Paying Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Noteholders and the Couponholders.

None of the Issuer, the Trustee, the Agent Bank and the Paying Agents, nor any independent investment bank appointed pursuant to the above paragraph in their stead, shall have any responsibility to any person for any errors or omissions in any calculation, or any transfer or sale of Payment Issuer Shares and/or Payment Ordinary Shares and/or Alternative Securities made pursuant to Condition 6 or otherwise, by the Calculation Agent.

The Trustee shall have no responsibility for maintaining the appointment of a Calculation Agent and if, for whatever reason there shall cease to be a Calculation Agent appointed, the Trustee, without liability to any person, shall not be responsible or obliged to find or appoint a Successor Calculation Agent and shall in no circumstances have any responsibility or obligation to perform any of the functions or duties imposed on the Calculation Agent under the Calculation Agency Agreement, the Trust Deed or the Conditions.

18. **Pre-emption**

The Issuer shall, in accordance with the requirements of the Companies Act, keep available for issue and use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take other corporate actions required for the issue and allotment of such amount of share capital as it reasonably considers would be required to be issued in order to enable the Issuer to make a payment satisfying the aggregate amount of Deferred Coupon Payments (if any) and, prior to the First Reset Date, the aggregate of Coupon Payments due on the next Coupon Payment Date and, after the First Reset Date, on the next two Coupon Payment Dates.

The Holding Company shall, at all times, keep available for issue and use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take other corporate actions required for the issue and allotment of such share capital as it reasonably considers would be required to be issued in order to satisfy the requirement to issue Payment Ordinary Shares in accordance with Condition 6 in connection with the aggregate amount of Deferred Coupon Payments (if any) and, prior to the First Reset Date, the aggregate of Coupon Payments due on the next Coupon Payment Date and, after the First Reset Date, on the next two Coupon Payment Dates.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer or the Holding Company of this Condition 18, the Trustee may only require the Issuer or the Holding Company, as the case may be, as soon as is reasonably practicable, to put appropriate resolution(s) before shareholder(s) of the Issuer or the Holding Company, as the case may be, whether in general meeting or in writing, in order to remedy and/or ratify such breach to the extent legally possible.

The Trustee shall not be obliged to monitor compliance by the Issuer and/or the Holding Company with this Condition and shall be entitled to assume, unless it has

actual knowledge to the contrary, that each of the Issuer and the Holding Company is complying with its obligations under this Condition.

For the avoidance of doubt, any shares which the Issuer or the Holding Company, as the case may be, is required to keep available for issue other than in connection with the Notes shall be disregarded in determining whether the Issuer and the Holding Company are complying with their obligations under this Condition 18.

19. **Governing Law**

The Trust Deed, the Notes, the Coupons and the Talons, and all non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, the laws of England.

20. **Contracts (Rights of Third Parties) Act 1999**

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

21. **Definitions**

In these Conditions:

"2009 Deferred Coupon Payment" means the Coupon Payment due 25 April 2009 payment of which was deferred by the Issuer in accordance with these Conditions;

"Accrued Coupon Payment" means, as at any time, where these Conditions provide that interest shall continue to accrue after a Coupon Payment Date in respect of a Note, the amount of interest accrued thereon in accordance with Condition 5 or 6(e);

"ACSM" or **"Alternative Coupon Satisfaction Mechanism"** means the mechanism described in Condition 6(a);

"ACSM Payment" means any Deferred Coupon Payment and/or any Substitution Accrued Amount and/or any Accrued Coupon Payment;

"ACSM Payment Date" means the date on which an ACSM Payment is to be satisfied pursuant to these Conditions;

"Additional Amounts" has the meaning given to it in Condition 10;

"Agent Bank" has the meaning given to it in the preamble to these Conditions;

"Alternative Coupon Satisfaction Mechanism" or **"ACSM"** means the mechanism described in Condition 6(a);

"Alternative Securities" means the Payment Ordinary Shares or any other shares or securities issued by the Holding Company which qualify as Tier 1 Capital at the relevant time;

"**Assets**" means the unconsolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors may determine to be appropriate;

"**Associated Costs**" means any taxes and costs payable in connection with the issue or transfer of any Payment Issuer Shares or Payment Ordinary Shares, as further set out in the Calculation Agency Agreement;

"**Balancing Instrument**" means the debt instrument issued by the Issuer to the Holding Company following the passing of the Extraordinary Resolution by Noteholders on 22 April 2010 which is expressed to rank subordinated to the Notes;

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;

"**Calculation Agency Agreement**" has the meaning given to it in the preamble to these Conditions;

"**Calculation Agent**" has the meaning given to it in the preamble to these Conditions;

"**Capital Disqualification Event**" is deemed to have occurred:

- (a) if the Notes would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as capital resources satisfying the Regulatory Capital Requirements (if any) applicable to the Issuer or the Supervised Group as a result of any change to the Capital Regulations or the application or official interpretation thereof at any time; or
- (b) if, at any time the Issuer or the Supervised Group is required to have Tier 1 Capital, the Notes would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo basis (if applicable) or of the Supervised Group on a consolidated basis; or
- (c) if at any time the Issuer or the Supervised Group is required to have Tier 1 Capital and the Issuer would be entitled pursuant to Condition 7(e) to substitute the Notes by Substituted Ordinary Shares, such Substituted Ordinary Shares would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo basis (if applicable) or of the Supervised Group on a consolidated basis;

"**Capital Regulations**" means the rules and regulations of any Relevant Supervisory Authority that require the Issuer, the Supervised Group or any of the EEA Regulated Subsidiaries to meet a Regulatory Capital Requirement;

"**Companies Act**" means the Companies Act 2006 (as amended);

"**Conditions**" means these terms and conditions of the Notes, as amended from time to time;

"**Coupon**" has the meaning given to it in the preamble to these Conditions;

"Coupon Amount" means, in respect of a Coupon, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Coupon Period in accordance with Condition 5 and includes Floating Coupon Amounts;

"Coupon Determination Date" means, in relation to each Reset Date, the first Business Day of the relevant Coupon Period;

"Couponholder" has the meaning given to it in the preamble to these Conditions;

"Coupon Payment" means, in respect of a Coupon Payment Date, the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date;

"Coupon Payment Date" means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 25 April in each year, starting on 25 April 2006 and (ii) after the First Reset Date, 25 April and 25 October in each year, starting on 25 October, 2016, PROVIDED THAT if any Coupon Payment Date after the First Reset Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

"Coupon Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period beginning on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date;

"Coupon Rate" means the Fixed Coupon Rate and/or the Floating Coupon Rate, as the case may be;

"Deferred Coupon Payment" means (i) any Coupon Payment which, pursuant to Condition 4, the Issuer has elected to defer and which has not been satisfied and (ii) any Coupon Payment which, by reason of the condition to payment set out in Condition 2(b)(i), has not been satisfied;

"Directors" means directors of the Issuer;

"Dividend and Capital Restriction" means that:

- (a) neither the Issuer nor the Ultimate Owner may declare, pay or distribute a dividend or make a payment on any of its Junior Share Capital, any Parity Securities or, in the case of the Issuer, the Balancing Instrument; and
- (b) neither the Issuer nor the Ultimate Owner may redeem, purchase or otherwise acquire any of its Junior Share Capital or redeem, purchase or otherwise acquire any Parity Securities or in the case of the Issuer redeem the Balancing Instrument (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired),

PROVIDED THAT neither paragraph (a) nor paragraph (b) above shall apply with respect to any payments made between any member of the Group including, without limitation, payments under, in relation to, or arising from, any shares, indebtedness or any other securities and further provided that the Ultimate Owner may declare, pay or distribute a dividend to its shareholders at any time in 2010 but after 22 April 2010 in an amount not to exceed £60,000,000;

"EEA Regulated Subsidiary" means any entity engaged in the insurance business and regulated as such by a member state of the European Economic Area in which the Holding Company, directly or indirectly holds 20 per cent. or more of the voting rights or capital;

"Eligible Company" means a company incorporated in a country which is a member of the Organisation for Economic Cooperation and Development whose ordinary shares are listed (i) on the official list of the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 and are admitted to trading on the regulated market of the London Stock Exchange; or (ii) on such other internationally recognised stock exchange as the Trustee may approve;

"European Economic Area" means the countries comprising the European Union together with Norway, Liechtenstein and Iceland;

"Extraordinary Resolution" has the meaning set out in Schedule 3 of the Trust Deed;

"Financial Services Authority" or **"FSA"** means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary insurance supervisory authority with respect to the Group;

"First Reset Date" means 25 April 2016;

"Fixed Coupon Rate" has the meaning given to it in Condition 5(c);

"Fixed Rate Coupon Period" means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

"Floating Coupon Amounts" has the meaning given to it in Condition 5(e);

"Floating Coupon Rate" has the meaning given to it in Condition 5(d);

"Group" means the Phoenix group of companies;

"Gross Redemption Yield" means, with respect to a security, the gross redemption yield on such security (as calculated by the Calculation Agent on the basis set out in the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on an annual compounding basis (and rounded up (if necessary) to four decimal places);

"holding company" has the meaning given to it under Section 1159 of the Companies Act 2006;

"Holding Company " means Phoenix Group Holdings;

"interest" shall, where appropriate, include Coupon Amounts, Deferred Coupon Payments and Accrued Coupon Payments;

"Issue Date" means 17 November 2005, being the date of initial issue of the Notes;

"Issuer" means Pearl Group Holdings (No. 1) Limited (registered number 03524909);

"Issuer Shares" means ordinary shares of the Issuer;

"Issuer's Territory" has the meaning given to it in Condition 12(f);

"Junior Share Capital" means the ordinary shares of each of the Issuer and the Holding Company respectively, together with any other securities of any member of the Group ranking or expressed to rank junior to the Notes, (either issued directly by the Issuer or the Holding Company as the case may be or, in each case, by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Notes);

"Liabilities" means the unconsolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors may determine to be appropriate;

"London Stock Exchange" means the London Stock Exchange plc;

"Make Whole Redemption Price" means, in respect of each Note, (a) the principal amount of such Note or, if this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on the Note on the Reference Date (assuming for this purpose that the Notes are to be redeemed at their principal amount on the First Reset Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. (London time) on the Reference Date of the Reference Bond plus 0.75 per cent., all as determined by the Calculation Agent;

"Margin" means 2.73 per cent.;

"Market Disruption" means (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by any stock exchange on which the Ordinary Shares are for the time being listed) or on settlement procedures for transactions in the Ordinary Shares on any stock exchange on which the Ordinary Shares are for the time being listed, in any such case, that suspension or limitation is, in the determination of the Calculation Agent, material in the context of the sale of the Ordinary Shares; or (ii) in the opinion of the Issuer, there has been a substantial deterioration in the price and/or value of the Ordinary Shares or circumstances are such as to prevent or to a material extent restrict the issue or delivery of the Shares, as the case may be;

"New Holding Company" means an Eligible Company that becomes the ultimate holding company for the Group following a Permitted Restructuring;

"New Holding Company Shares" means the ordinary shares of the New Holding Company;

"Noteholder" has the meaning given to it in the preamble to these Conditions;

"Notes" has the meaning given to it in the preamble to these Conditions;

"Notional Preference Shares" has the meaning given to it in Condition 3;

"Ordinary Shares" means ordinary shares of the Holding Company;

"Other Tax Event" means an event of the type described in Condition 7(c)(iii);

"Outstanding", in relation to any Coupon Payment, Deferred Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction on the relevant date of the conditions referred to in Condition 2(b)(1) or the deferral, postponement or suspension of such payment in accordance with any of Condition 4, 6(e) or 8(d); and (b) in any such case has not been satisfied and, in respect of any Accrued Coupon Payment, means any amount thereof which has not been satisfied whether or not payment has become due;

"Parity Securities" means (i) the most senior ranking class or classes of non-cumulative preference shares in the capital of the Issuer, or the Holding Company, as the case may be from time to time; (ii) any other securities ranking or expressed to rank *pari passu* with the Notes; and (iii) such non-cumulative preference shares or other securities or obligations whether issued directly by the Issuer or the Holding Company as the case may be or, in each case, by a subsidiary undertaking and benefiting from a guarantee or support agreement ranking, or expressed to rank, *pari passu* with the Notes;

"Par Tax Event" means an event of the type described in Condition 7(c)(i) and (ii);

"Paying Agency Agreement" has the meaning given to it in the preamble to these Conditions;

"Paying Agents" has the meaning given to it in the preamble to these Conditions;

"Payment" means any Coupon Payment, Deferred Coupon Payment, Accrued Coupon Payment or Coupon Amount not falling within the definition of Coupon Payment;

"Payment Issuer Shares" has the meaning given to it in Condition 6(b)(i);

"Payment Ordinary Shares" has the meaning given to it in Condition 6(b)(ii);

"Permitted Restructuring" means the completion of (i) an offer made by or on behalf of, an Eligible Company to all (or as nearly as may be practicable to all) of the shareholders of the Ultimate Owner to acquire the whole (or as nearly as may be

practicable to the whole) of the issued ordinary share capital of the Ultimate Owner other than those ordinary shares already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring, whether by way of a scheme of arrangement or otherwise, pursuant to which an Eligible Company acquires all (or as nearly as may be practicable to all) of the issued ordinary share capital of the Ultimate Owner not held by or on behalf of such Eligible Company or (iii) the Ultimate Owner is merged into an Eligible Company in consideration for the issue of shares in such Eligible Company to the existing shareholders of the Ultimate Owner or (iv) a reorganisation, restructuring, registration by way of continuation or procedure having equivalent effect, whether by court order or otherwise, pursuant to which the domicile of the Ultimate Owner transfers from its current domicile of incorporation, from time to time, to a domicile of incorporation in a country which is a member of the Organisation for Economic Cooperation and Development;

"Permitted Restructuring Arrangement" means an arrangement whereby the following condition is satisfied: the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure that the Alternative Coupon Satisfaction Mechanism, the Trust Deed, the Paying Agency Agreement and the Calculation Agency Agreement operate so that the Ordinary Shares may be exchanged for New Holding Company Shares in such a manner that ensures that upon sale of such New Holding Company Shares the holder of each Note then outstanding will receive, in the event of a payment to be satisfied pursuant to the Alternative Coupon Satisfaction Mechanism, an amount not less than that which would have been receivable had such Permitted Restructuring not taken place, which shall have been certified by two directors of each of the Issuer and Phoenix Group Holdings, which certificate shall be conclusive and binding on all parties and the Noteholders;

"person" means any firm, body corporate, unincorporated association, partnership, individual or any individual's executors or administrators;

"Preference Share Substitution" has the meaning given to it in Condition 7(e);

"Principal Paying Agent" has the meaning given to it in the preamble to these Conditions;

"Qualifying Tier 1 Securities" means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor (as reasonably determined by the Issuer, and as conclusively evidenced by a certificate to such effect signed by two Directors delivered to the Trustee prior to the issue of the relevant securities) than the terms of the Notes, PROVIDED THAT they shall include a ranking at least equal to that of the Notes and the same Coupon Rate from time to time as that applying to the Notes but not necessarily having provisions analogous to the provisions of Condition 6, and further PROVIDED THAT they shall comply with the then current requirements of the FSA in relation to Tier 1 Capital and shall preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been paid; and

- (b) are admitted to trading on a market of the London Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

"Qualifying Upper Tier 2 Securities" means securities issued directly or indirectly by the Issuer that:

- (a) have terms not materially less favourable to an investor (as reasonably determined by the Issuer, and as conclusively evidenced by a certificate to such effect signed by two Directors delivered to the Trustee prior to the issue of the relevant securities) than the terms of the Notes PROVIDED THAT (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital, (2) they have the same Coupon Rate from time to time as that applying to the Notes but PROVIDED THAT such securities need not include provisions analogous to the provisions of Condition 6 and (3) such securities preserve any existing rights under these Conditions to any Accrued Coupon Payment which has not been paid; and
- (b) are admitted to trading on a market of the London Stock Exchange or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

"Recognised Stock Exchange" means a recognised stock exchange as defined in section 841 of the Income and Corporation Taxes Act 1988 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time;

"Redemption Price" means, in respect of each Note, its principal amount;

"Reference Banks" means four major banks in the interbank market in London as selected by the Agent Bank;

"Reference Bond" means the 4.75 per cent. Treasury Stock due 7 September 2015, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Reset Date, as the Calculation Agent may, with the advice of the Reference Market Makers, determine to be appropriate;

"Reference Date" means the date which is three dealing days prior to the date fixed for redemption pursuant to Conditions 7(c) or 7(d) by the Issuer;

"Reference Market Makers" means three brokers or market makers of gilts selected by the Calculation Agent in consultation with the Issuer and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Calculation Agent in consultation with the Issuer and approved for this purpose by the Trustee;

"Regulatory Capital Requirements" means any applicable minimum or notional margin of solvency or minimum capital or capital requirement specified for insurance companies, insurance holding companies or insurance groups by any Relevant Supervisory Authority;

"Related Party" means any person who has an interest (as such term is understood for the purposes of sections 820 to 823, inclusive, of the Companies Act 2006) in the Issuer, irrespective of whether the Issuer is a public or private company and who, if that person acquires one or a number of Payment Issuer Shares or Payment Ordinary Shares, could not cause the Issuer to cease to be a member of the same group as Phoenix Group Holdings (previously Pearl Group) for the purposes of group relief under Chapter IV of Part X of the Income and Corporation Taxes Act 1988;

"Relevant Date" means (i) in respect of any payment other than a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the **"Relevant Date"** means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Noteholders in accordance with Condition 15, and (ii) in respect of a Solvency Claim to be paid by the Issuer in a winding-up of the Issuer, the date which is one day prior to the commencement of the winding-up;

"Relevant Supervisory Authority" means any regulator (including, without limitation, the FSA) having jurisdiction over the Issuer or any of the EEA Regulated Subsidiaries from time to time;

"Reset Date" means the First Reset Date and each Coupon Payment Date thereafter;

"Restricted Person" means a person to whom Substitute Preference Shares will not be available for issue being (a) Euroclear, Clearstream, Luxembourg, First Chicago Clearing Center or any other person providing a clearance service within section 96 of the Finance Act 1986 of the United Kingdom or any nominee thereof or (b) a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within section 93 of the Finance Act 1986 of the United Kingdom or (c) any other person the issue to whom would give rise to an equivalent charge to stamp duty reserve tax in the United Kingdom, in each case at any time prior to the "abolition day" as defined in section 111(1) of the Finance Act 1990 of the United Kingdom;

"Senior Creditors" means:

- (a) creditors of the Issuer who are unsubordinated creditors of the Issuer;
- (b) creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of Noteholders);
- (c) creditors of the Issuer whose claims are in respect of the Issuer's outstanding debt securities which constitute Tier 2 Capital or guarantees or support agreements ranking, or expressed to rank, *pari passu* with such securities (and such other securities outstanding from time to time which rank *pari passu* with, or senior to, any of such Tier 2 Capital); and
- (d) holders of cumulative preference shares of the Issuer;

"**Solvency Claim**" has the meaning given to it in Condition 2(b)(ii);

"**Subsidiary**" means each subsidiary for the time being of the Issuer;

"**subsidiary**" has the meaning given to subsidiary undertakings under section 1159 of the Companies Act 2006;

"**Substitute Obligor**" has the meaning given to it in Condition 12;

"**Substitution Notice**" has the meaning given in Condition 7(e)(i);

"**Substituted Preference Shares**" has the meaning given to it in Condition 7(e)(i);

"**Substituted Territory**" has the meaning given to it in Condition 12(f);

"**Substitution Accrued Amount**" means any Accrued Coupon Payment which is to be satisfied on substitution of the Notes for Substituted Preference Shares in accordance with Condition 7(e)(ii);

"**Substitution Date**" has the meaning given to it in Condition 7(e)(i);

"**Substitution Event**" means the occurrence of any of the following:

- (a) a breach by the Issuer or the Supervised Group or any member of the Supervised Group of the Capital Regulations;
- (b) a notification by any Relevant Supervisory Authority to the Issuer or to any member of the Supervised Group that such Relevant Supervisory Authority has determined that there would be a breach by the Issuer or the Supervised Group or any member of the Supervised Group of the Capital Regulations in the near term; or
- (c) a determination by the board of Directors of the Issuer or the board of directors of any member of the Supervised Group that there would be a breach by the Issuer or the Supervised Group or any member of the Supervised Group of the Capital Regulations in the near term;

"**Successor**" means, in relation to the Calculation Agent, such other or further person as may from time to time be appointed by the Issuer as the Calculation Agent (with the prior approval of, and on terms previously approved by, the Trustee in writing (such approval not to be unreasonably withheld)) and notice of whose appointment is given to Noteholders pursuant to sub-clause 7.1.12 of the Trust Deed;

"**Supervised Group**" means the Issuer and the EEA Regulated Subsidiaries;

"**Suspension**" has the meaning given to it in Condition 8(d);

"**Talon**" has the meaning given to it in the preamble to these Conditions;

"**Tax Law Change**" means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including

any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the Notes, which change or amendment becomes, or would become, effective on or after 15 November 2005;

"**Tier 1 Capital**" and "**Tier 2 Capital**" have the respective meanings given to them from time to time by the FSA;

"**Treaty**" means the Treaty establishing the European Communities (signed in Rome on 25 March 1957), as amended;

"**Trust Deed**" has the meaning given to it in the preamble to these Conditions;

"**Trustee**" has the meaning given to it in the preamble to these Conditions;

"**Ultimate Owner**" means, at any given time, the ultimate holding company of the Group and for the avoidance of doubt as at the date hereof means Phoenix Group Holdings (previously Pearl Group);

"**Upper Tier 2 Capital**" has the meaning given to it by the FSA from time to time; and

"**Upper Tier 2 Securities**" means the Issuer's outstanding debt securities which constitute Upper Tier 2 Capital and such other securities outstanding from time to time which rank *pari passu* with such securities or guarantees or support agreements ranking, or expressed to rank, *pari passu* with such securities.